DIRECT LINE INSURANCE GROUP PLC, U K INSURANCE LIMITED AND CHURCHILL INSURANCE COMPANY LIMITED

SINGLE SOLVENCY AND FINANCIAL CONDITION REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

CONTENTS

INTRODUCTION

Direct Line Insurance Group plc (the "**Company**") together with its subsidiaries (the "**Group**") has prepared a Single Solvency and Financial Condition Report ("**SFCR**") as at 31 December 2023 in accordance with permission granted by the Prudential Regulation Authority ("**PRA**") in December 2015 to produce a Single SFCR. This permission allows the Group to produce one SFCR that covers both the Group and its individual regulated subsidiaries and is valid until 30 June 2025.

The Group's regulated entities are U K Insurance Limited ("**UKI**") and Churchill Insurance Company Limited ("**CIC**"). In meeting the requirements for a Single SFCR, information is reported for the Group, UKI and CIC separately except where that information is equivalent in both nature and scope at Group level to that at regulated subsidiary level. The individual Boards of Directors of the Company, UKI and CIC (the "**Boards**") have the same membership. Much of the information in the SFCR is equally relevant to the Group, UKI and CIC. Where this is not the case, this has been highlighted.

The requirement to produce a SFCR follows the introduction of Solvency II as the solvency framework which was implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. Solvency II has established a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. The UK continues to follow the solvency framework after the UK left the EU on 31 January 2020.

The SFCR presents information on the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management of the Group, UKI and CIC. Relevant information about the business of the Group is also included in the Group's Annual Report & Accounts which is the primary vehicle for reporting performance, consolidated financial statements, corporate governance and risk management to the Group's investors. The Group's Annual Report & Accounts 2023 was published on its website in March 2024 and a copy can be found at: www.directlinegroup.co.uk/en/investors

Some elements of this report are subject to external audit as detailed in the Auditor's report, which can be found on page 66.

EXECUTIVE SUMMARY

SECTION A – Business and performance summary

The Group

The Group's mission is to be brilliant for customers every day.

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

The Group is one of Britain's leading private motor insurers represented through its brands Direct Line, Churchill, Privilege, Darwin and By Miles and through its partners.

The Group is also one of Britain's leading personal home insurers. The Group reaches its customers by selling home insurance products through its brands Direct Line, Churchill and Privilege, and its partners including NatWest Group.

The Group is one of the leading providers of rescue and pet insurance in the UK. The Group protects commercial businesses through its brands Direct Line for Business and Churchill.

The Group believes that by working sustainably it can create value for all its stakeholders. The Group's five pillar Sustainability Strategy supports its vision of creating a world where insurance is personal, inclusive and a force for good.

Solvency II lines of business

The policies underwritten by the Group are spread across the Solvency II lines of business including motor vehicle liability insurance, other motor insurance, fire and other damage to property insurance, general liability insurance, income protection insurance, legal expenses insurance, assistance and miscellaneous financial loss.

Business performance in 2023

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

First, in Motor the Group has taken significant pricing and underwriting action, prioritising margin improvement over volume. The Group believes that for the majority of the second half of 2023 it has been underwriting profitably, consistent with its ambition of a net insurance margin of above 10%. Encouragingly, the Group began to see the signs of an improvement in its current year net insurance claims ratio in the second half of 2023.

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

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

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

Section A of the SFCR has more information on the Group's business and performance in 2023: see pages 6 to 17 of this report.

SECTION B – System of governance summary

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 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

The Group's governance framework is detailed in the Group's Systems of Governance Framework document. This document also details how the Group meets Solvency II and the PRA requirements to identify key functions and to have and maintain a Responsibilities Map in respect of the PRA and Financial Conduct Authority's ("**FCA**") Senior Managers and Certification Regime requirements. The Board reviews this document annually.

The structure of the Board, Board Committees and executive management together with the roles and responsibilities of the Board can be found on page 111 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

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

Section B of the SFCR has more information on the Group's system of governance: see pages 18 to 31 of this report.

SECTION C – Risk profile summary

The Group's partial internal model and UKI's internal model are used to calculate the Group and UKI solvency capital requirements respectively.

The following table shows the UKI solvency capital requirement ("**SCR**") of £1,103.2 million as at 31 December 2023, calculated using the approved internal model, by risk type. The SCR for the Group as at 31 December 2023 using its approved model was £1,133.0 million.

UKI SCR split by risk type

	2023	2022
	£m	£m
Underwriting risk	**1,086.8**	1,127.0
Market risk	**171.2**	293.9
Counterparty default risk	**72.6**	65.1
Operational risk	**303.6**	275.6
Risk margin volatility	**28.8**	19.6
Total - undiversified risk	**1,663.0**	1,781.2
Diversification	**(559.8)**	(607.0)
Total - diversified	**1,103.2**	1,174.2
Loss absorbing capacity for deferred taxes	**–**	–
UKI SCR	**1,103.2**	1,174.2

The undiversified risk profile of UKI shows that underwriting risk is the largest risk as in previous years. Market risk has reduced following higher investment returns, together with lower credit spread volatility. Operational risk and counterparty default risk have increased slightly.

Underwriting risk is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. 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.

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.

Operational risk is the risk of loss due to inadequate or failed internal processes, human error, systems, or from external events.

Counterparty default risk is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings.

The SCR includes an assessment of the risks relating to the current high inflationary environment and the Group will continue to monitor this area.

Section C of the SFCR has more information on the Group's risk profile: see pages 32 to 40 of this report.

SECTION D – Valuation for solvency purposes summary

In accordance with the Solvency II requirements, the Group values all assets and liabilities on the balance sheets of the Group and its regulated entities at fair value, which represents an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Goodwill and intangible assets are valued at zero.

An analysis of the Solvency II material classes of assets and liabilities is provided in sections D.1 and D.3 respectively. Section D details the recognition and valuations bases, the judgements and any assumptions made, including sources of estimation uncertainty applied for Solvency II, and compares these with judgements and assumptions made in the preparation of IFRS financial statements.

Section D.2 describes the bases, methods and assumptions for the valuation of Solvency II technical provisions, including the estimation uncertainty, and compares these with the bases, methods and assumptions used in the preparation of the IFRS financial statements.

A summary of the Solvency II balance sheets for the Group and its regulated subsidiaries is set out below:

31 December 2023	Group £m	UKI £m	CIC £m
Total investments	5,614.2	5,407.5	19.6
Property, plant and equipment held for own use	145.7	55.1	—
Reinsurance recoverables	846.2	820.3	28.7
Insurance and other receivables	486.3	450.3	0.6
Cash and cash equivalents	148.0	136.1	—
Deferred tax assets	87.4	—	0.3
Other assets	48.4	13.5	—
Total assets	**7,376.2**	**6,882.8**	**49.2**
Technical provisions	4,542.2	4,641.6	34.9
Provisions other than technical provisions	95.8	65.0	—
Deferred tax liabilities	—	29.6	—
Derivatives	15.4	15.1	—
Debts owed to credit institutions	82.4	72.1	—
Financial liabilities other than debts owed to credit institutions	106.1	100.0	0.8
Insurance and other payables	224.2	80.1	—
Subordinated liabilities	217.5	—	—
Total liabilities	**5,283.6**	**5,003.5**	**35.7**
Excess of assets over liabilities	**2,092.6**	**1,879.3**	**13.5**

Section D of the SFCR has more information on the Group's valuation for solvency purposes: see pages 41 to 51 of this report.

SECTION E – Capital management summary

In June 2016, UKI, the Group's principal underwriter, received approval from the PRA to use its Internal Economic Capital Model which forms part of a Group-wide partial internal model which has been in use from the same date.

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 policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management minimum standard.

The solvency capital ratio was as follows for the Group and regulated entities:

31 December 2023	Group £m	UKI £m	CIC £m
Solvency capital requirement	1,133.0	1,103.2	1.7
Capital surplus above solvency capital requirement	1,100.3	776.1	11.8
Solvency capital ratio (%)	**197 %**	**170 %**	**803 %**

Section E of the SFCR has more information on the Group's capital management: see pages 52 to 63 of this report.

Reconciliation of excess of assets over liabilities to own funds

31 December 2023	Group £m	UKI £m	CIC £m
Excess of assets over liabilities	**2,092.6**	**1,879.3**	**13.5**
Capital distributions	(51.9)	—	—
Own shares[1]	(24.9)	—	—
Less deferred tax assets	(87.4)	—	(0.3)
Excess of assets over liabilities (Tier 1)	**1,928.4**	**1,879.3**	**13.2**
Reclassified restricted Tier 1 and subordinated liabilities (Tier 2)	217.5	—	—
Deferred tax assets (Tier 3)	87.4	—	0.3
Eligible own funds	**2,233.3**	**1,879.3**	**13.5**

Note:

1. Own shares (held directly) for employee share trusts form part of Tier 1 own funds and are included within assets on the Solvency II balance sheet.

Material changes

Commenced new Motability partnership

After nearly two years of preparation, the Group welcomed over 700,000 Motability customers at the start of September. The partnership is forecast to deliver over £800 million of gross premium annually. The partnership is accounted for in 5 year terms but allows for six-monthly repricing to mitigate the risk of claims inflation, whilst being capital light as it is 80% reinsured.

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

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

Sale of brokered Commercial business

On 6 September 2023 the Group announced the sale of its brokered commercial insurance business to Royal & Sun Alliance Insurance Limited. Under the terms of the agreement, the Group has retained the back book of the business written and earned prior to 1 October 2023 (the "**Risk Transfer Date**"). Business written subsequent to the Risk Transfer Date is subject to a quota share arrangement between the two companies. Over time the two companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date.

Exit of three 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.

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

The Group has adopted the requirements of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' from 1 January 2023 on a fully retrospective basis in its IFRS financial statements for the first time.

These new accounting standards improve alignment between IFRS earnings and capital generation under Solvency II but do not affect the economics of the Group or its dividend paying capacity.

The Group's headline key performance measure has changed from combined operating ratio to net insurance margin ("**NIM**") under IFRS 17, which the Group believes is a better measure of how the business is run.

Solvency II reforms

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

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

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

A. BUSINESS AND PERFORMANCE

SECTION A: BUSINESS AND PERFORMANCE (UNAUDITED)

In this section:

A.1 Business

Name and legal form

Direct Line Insurance Group plc is a public limited company incorporated in England and Wales. It 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.

Supervision

The Company's supervisory authorities responsible for financial supervision are:

Prudential Regulation Authority ("**PRA**")

Bank of England

20 Moorgate

London

EC2R 6DA

Switchboard: +44 (0)20 3461 4444

Email: PRA.FirmEnquiries@bankofengland.co.uk

Financial Conduct Authority ("**FCA**")

12 Endeavour Square

London

E20 1JN

Phone: +44 (0)20 7066 1000

Email: firm.queries@fca.org.uk

Auditor

External Auditor:

Deloitte LLP

1 New Street Square

London

EC4A 3HQ

Phone: +44 (0)20 7936 3000

Holders of qualifying holdings

There were no holders of qualifying holdings in the Company as at 31 December 2023. A 'qualifying holding' is a direct or indirect holding in the Company which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the Company.

Group ownership and structure

The Company is the ultimate holding company of the Group. The underwriting subsidiaries of the Company, both of which are 100% owned, are as follows:

- U K Insurance Limited – general insurance
- Churchill Insurance Company Limited – general insurance

The Group publishes a Single SFCR following PRA approval and a modification to the PRA Handbook. This is a single publication of a Group SFCR for Direct Line Insurance Group plc and its subsidiaries, and solo SFCR reports for both UKI and CIC. Information is separately identifiable by reference to the Group, UKI and CIC.

Basis of consolidation

The Solvency II Group balance sheet is a full consolidation in accordance with Article 335 and there are no differences in the scope of the Group used for the Group's consolidated financial statements in its Annual Report & Accounts 2023.

A. BUSINESS AND PERFORMANCE continued

Subsidiaries

The subsidiary undertakings of the Company are set out 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:			
By Miles Group Limited[1]	12270837	United Kingdom	Intermediate holding company
By Miles Limited[1]	09498559	United Kingdom	Business support services
By Miles Payment Services Limited[1]	12190473	United Kingdom	Business support services
By Miles Technology Services Limited[1]	12189384	United Kingdom	Software development
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]

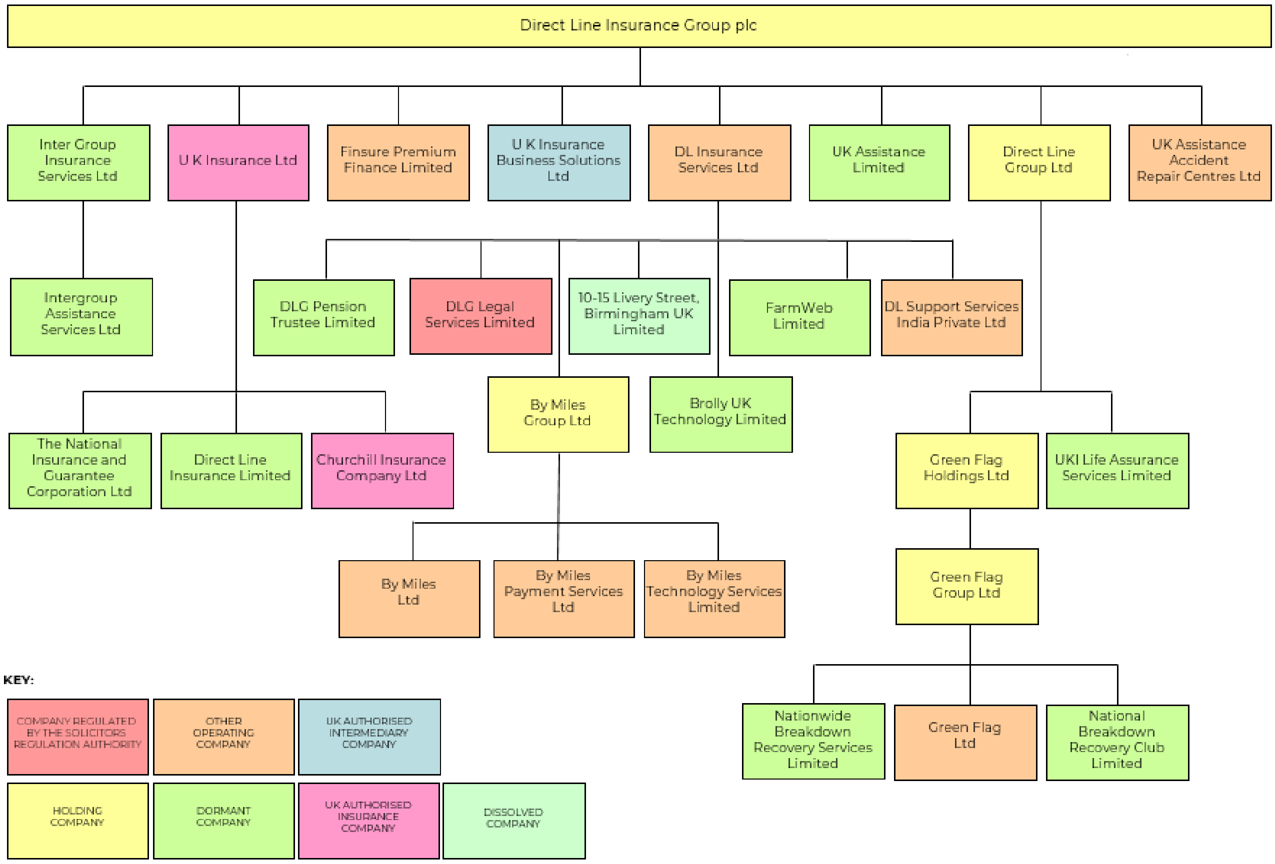
Notes:

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.

Group structure

Direct Line Group legal entity structure as at 31 December 2023.

All current legal entities.



Branch

The Group has a small amount of business in the Republic of Ireland, servicing a small Irish part of a UK partner's wider business. Accordingly, following approval from the Central Bank of Ireland the Group established an Irish branch in the Republic of Ireland with effect from 1 January 2021.

Lines of business

The Group provides motor, home, rescue and other personal lines and commercial insurance products. The Group is one of Britain's leading personal motor insurers, mainly represented through its brands Direct Line, Churchill, Privilege, Darwin and By Miles, and also through its partners.

The Group is one of Britain's leading personal home insurers. The Group reaches its customers by selling home insurance products through its brands Direct Line, Churchill and Privilege, and its partner NatWest Group. The Group is one of the leading providers of rescue, travel and pet insurance in the UK.

The Group protects commercial businesses through its brands Direct Line for Business and Churchill. Direct Line for Business sells its products directly to customers, and Churchill sells its products directly to customers and through price comparison websites ("**PCW**").

Motor vehicle liability insurance

The Group's personal and commercial lines motor vehicle liability insurance products provide cover against third-party property damage and bodily injury liability cover.

Other motor insurance

The Group's personal and commercial lines other motor insurance products provide cover against accidental damage, fire, theft and windscreen damage.

Fire and other damage to property insurance

The Group's personal and commercial lines insurance products provide cover against accidental damage, escape of water, fire, subsidence, theft and weather (including storms and flooding).

General liability insurance

The Group's commercial lines general liability insurance products provide cover against personal accident, employers' liability, public liability for injury, public liability to property and disease.

Income protection insurance

The Group's creditor income protection insurance product includes cover in the event of being unable to continue working.

Legal expenses insurance

The Group offers legal expenses insurance cover that includes motor legal protection and family legal protection, including for employment disputes and personal injury. The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third party against an at-fault Group policyholder, the cost to the Group will be included in motor liability or other motor insurance claims and not in legal expenses claims.

Assistance

The Group's personal lines assistance products cover motor rescue, car hire and travel (including cancellation, medical and non-medical expenses).

Miscellaneous financial loss

The Group's personal and commercial lines miscellaneous financial loss products include creditor protection for unemployment, pet, including veterinary fees, home response and emergency, pecuniary loss for business interruption and commercial special risks.

Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations

The Group's personal and commercial lines insurance products provide cover for motor vehicle liability insurance and general liability insurance that can be settled by a periodic payment order as awarded by a court under the Courts Act 2003. As the Group has no non-life insurance contracts relating to health insurance obligations, future references within this document to 'Annuities from non-life' refer only to non-life annuities not relating to health insurance.

Geographical areas

The Group carries out its business primarily in the United Kingdom; a small number of policies are sold in the Republic of Ireland.

Significant business or other events

There are no other significant business or other events other than those set out in the Executive summary, in respect of the year ended 31 December 2023.

A.2 Underwriting performance

The allocation of IFRS premiums, claims and expenses to Solvency II lines of business is an allocation that is performed for the purpose of producing Quantitative Reporting Templates and the SFCR and is based on simplified allocations. The Group does not report its IFRS performance internally by Solvency II lines of business. The Board manages the Group primarily by product type and presents a segmental analysis in the Group's Annual Report & Accounts 2023 on page 210 on that basis. The segments, which are all UK based, reflect the management structure whereby the chief operating decision makers, being the Chief Executive Officer and the Chief Financial Officer, regularly review the operating results at the segmental level. For an understanding of the Group's IFRS performance, consistent with how the Group is managed, the Chief Financial Officer's review starting on page 26, the Operating review starting on page 40 and the financial statements starting on page 174 in the Group's Annual Report & Accounts 2023 provide more relevant information.

In 2023, the Group reported its first set of annual results under IFRS 17, the new insurance accounting standard for insurance contracts. Although the new standard does not change the economics of the Group, it does introduce new disclosure headings and some changes in timing of recognition. For example, insurance claims are now all discounted to reflect the time value of money. IFRS 17 does not affect how the Group reports under Solvency II.

Group – by line of business

For year ended 31 December 2023	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,580.7	754.7	968.3	136.8	3.6	63.9	304.5	105.9	—	**3,918.4**
Gross earned premium	1,309.7	679.7	905.8	125.8	3.6	66.8	309.2	104.7	—	**3,505.3**
Reinsurers' share	(301.0)	—	(135.1)	(26.0)	—	(0.2)	(2.1)	(5.8)	—	**(470.2)**
Net earned premium	1,008.7	679.7	770.7	99.8	3.6	66.6	307.1	98.9	—	**3,035.1**
Gross claims	(1,473.1)	(509.1)	(503.0)	(13.9)	(1.1)	0.7	(184.8)	(63.7)	49.5	**(2,698.5)**
Reinsurers' share	361.9	—	79.1	6.1	—	(0.2)	3.7	2.6	(29.8)	**423.4**
Net claims	(1,111.2)	(509.1)	(423.9)	(7.8)	(1.1)	0.5	(181.1)	(61.1)	19.7	**(2,275.1)**
Expenses incurred	(374.1)	(244.3)	(326.3)	(42.2)	(2.6)	(16.9)	(105.0)	(28.3)	—	**(1,139.7)**
Underwriting (loss)/ profit	**(476.6)**	**(73.7)**	**20.5**	**49.8**	**(0.1)**	**50.2**	**21.0**	**9.5**	**19.7**	**(379.7)**

A. BUSINESS AND PERFORMANCE continued

Group – by line of business

For year ended 31 December 2022	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,036.1	598.3	868.3	122.0	4.1	71.2	287.1	107.1	—	3,094.2
Gross earned premium	1,067.3	605.3	869.1	116.3	4.1	73.2	290.9	106.0	—	3,132.2
Reinsurers' share	(89.7)	—	(66.7)	(6.7)	—	—	(0.7)	(1.9)	—	(165.7)
Net earned premium	977.6	605.3	802.4	109.6	4.1	73.2	290.2	104.1	—	2,966.5
Gross claims	(845.2)	(383.5)	(547.2)	(32.5)	(0.3)	(19.5)	(148.4)	(66.6)	21.4	(2,021.8)
Reinsurers' share	6.3	—	5.0	2.2	—	—	0.3	0.6	(31.0)	(16.6)
Net claims	(838.9)	(383.5)	(542.2)	(30.3)	(0.3)	(19.5)	(148.1)	(66.0)	(9.6)	(2,038.4)
Expenses incurred	(368.0)	(220.9)	(317.6)	(45.3)	(4.2)	(18.5)	(104.0)	(25.7)	(0.1)	(1,104.3)
Underwriting (loss)/ profit	(229.3)	0.9	(57.4)	34.0	(0.4)	35.2	38.1	12.4	(9.7)	(176.2)

The difference between the 2023 underwriting loss on a Solvency II basis and insurance service result on an IFRS basis relates to: instalment income and other claims income being included within the IFRS insurance result and non-technical expenses excluded from the SII underwriting loss.

The table below reconciles the 2023 underwriting loss to the IFRS insurance service result on an IFRS 17 basis.

Group

For the year ended 31 December 2023	£m
IFRS underwriting loss on SII basis	**(379.7)**
Subtract items in SII underwriting result but not in IFRS 17 insurance service result:	
Investment management fees	**9.3**
Add back items in IFRS 17 insurance service result but not in SII underwriting result:	
Instalment income	**92.8**
Other directly attributable claims income	**42.8**
Arrangement and administration fees	**3.6**
Non-technical expenses	**(20.2)**
Insurance service result	**(251.4)**

Direct Line Insurance Group plc is the ultimate holding company for a vertically integrated general insurance group which has outsourced to companies within the Group the delivery of certain services and claims activities, for example the repair of motor vehicles. The cost of claims in UKI represents the full cost of claims to the Company, whereas in the consolidated Group, claims represents the cost less margin generated from such outsourced activities.

UKI – by line of business

For year ended 31 December 2023	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium[1]	1,581.5	755.2	968.3	137.1	3.6	63.9	304.5	105.9	—	**3,920.0**
Gross earned premium	1,310.4	680.2	905.8	126.2	3.6	66.8	309.2	104.7	—	**3,506.9**
Reinsurers' share	(301.0)	—	(135.1)	(26.1)	—	(0.2)	(2.1)	(5.8)	—	**(470.3)**
Net earned premium	1,009.4	680.2	770.7	100.1	3.6	66.6	307.1	98.9	—	**3,036.6**
Gross claims	(1,489.4)	(748.2)	(503.0)	(13.9)	(1.1)	0.7	(184.8)	(63.7)	50.4	**(2,953.0)**
Reinsurers' share	362.0	—	79.1	6.1	—	(0.2)	3.7	2.6	(30.5)	**422.8**
Net claims	(1,127.4)	(748.2)	(423.9)	(7.8)	(1.1)	0.5	(181.1)	(61.1)	19.9	**(2,530.2)**
Expenses incurred	(362.4)	(238.8)	(324.7)	(42.3)	(2.6)	(16.8)	(97.7)	(28.2)	—	**(1,113.5)**
Underwriting (loss)/ profit	**(480.4)**	**(306.8)**	**22.1**	**50.0**	**(0.1)**	**50.3**	**28.3**	**9.6**	**19.9**	**(607.1)**

UKI – by line of business

For the year ended 31 December 2022	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium[1]	1,036.9	598.5	868.3	122.3	4.1	71.2	287.1	107.1	—	3,095.5
Gross earned premium	1,067.7	605.4	869.1	116.5	4.1	73.2	290.9	106.0	—	3,132.9
Reinsurers' share	(89.7)	—	(66.7)	(6.7)	—	—	(0.7)	(1.9)	—	(165.7)
Net earned premium	978.0	605.4	802.4	109.8	4.1	73.2	290.2	104.1	—	2,967.2
Gross claims	(845.2)	(538.3)	(547.2)	(32.5)	(0.3)	(19.5)	(148.4)	(66.7)	16.7	(2,181.4)
Reinsurers' share	6.3	—	5.0	2.2	—	—	0.3	0.6	(26.1)	(11.7)
Net claims	(838.9)	(538.3)	(542.2)	(30.3)	(0.3)	(19.5)	(148.1)	(66.1)	(9.4)	(2,193.1)
Expenses incurred	(363.2)	(219.3)	(316.6)	(45.3)	(4.2)	(18.4)	(99.7)	(25.5)	—	(1,092.2)
Underwriting (loss)/ profit	(224.1)	(152.2)	(56.4)	34.2	(0.4)	35.3	42.4	12.5	(9.4)	(318.1)

Note:

1. Gross written premium is marginally higher in UKI compared to Group due to insurance written for other Group companies, which is eliminated on consolidation.

CIC – by line of business

For the year ended 31 December	2023 Annuities from non-life £m	**2023 Total £m**	2022 Annuities from non-life £m	2022 Total £m
Gross written premium	—	**–**	—	—
Gross earned premium	—	**–**	—	—
Reinsurers' share	—	**–**	—	—
Net earned premium	—	**–**	—	—
Gross claims	(1.4)	**(1.4)**	5.1	5.1
Reinsurers' share	2.0	**2.0**	(4.7)	(4.7)
Net claims	0.6	**0.6**	0.4	0.4
Expenses incurred	—	**–**	(0.1)	(0.1)
Underwriting profit	**0.6**	**0.6**	0.3	0.3

Underwriting performance – Group

UKI is the main underwriting company within the Group. CIC has a small number of historic claims reported in the undertaking.

At a Group level, in 2023 the loss from underwriting performance was £379.7 million. This compares to a reported Group insurance service result in 2023 of a loss of £251.4 million.,A reconciliation between the two measures is provided on page 11.

The IFRS insurance service result for ongoing operations is described below. The Group has excluded the results of the brokered commercial business and three run off partnerships from its ongoing results.

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

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

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

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

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

Prior-year reserve movements were impacted by a £138.4 million reserve strengthening and a £78 million increase in the cost for the remediation from the total loss past business review. This delivered a deterioration in the prior-year reserve movement from ongoing operations from a release of £35.4 million in 2022 to a strengthening of £146.0 million in 2023. Outside of Motor, Home saw a £8.9 million release, but this was offset by a strengthening within the Commercial Van product. As previously set out, the opportunity for prior-year reserve releases in the short term remains low.

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

The Group transferred its brokerage commercial business to Royal & Sun Alliance Insurance Limited with effect from 1 October 2023 through a combination of quota share reinsurance and a form of renewal rights transfer. As a result, the economic effect of the brokered commercial insurance business moved to Royal & Sun Alliance Insurance Limited and the back book of policies has remained with the Group. The IFRS operating profit relating to the brokered commercial business in 2023 was £27.6 million (2022: £62.9 million).

The run off partnerships are in Travel and Rescue and have either been excited or termination has been initiated. The operating loss relating to run off partnerships in 2023 was £29.5 million (2022: £10.8 million loss).]

Analysis by line of business

Motor vehicle liability and other motor insurance

Gross written premium for motor vehicle liability insurance was £1,580.7 million[1] in 2023, an increase of £544.6million (2022: £1,036.1 million). In response to market wide claims inflation, the motor market experienced significant price inflation during 2023. Market average premiums increased by around 25%[1] which led to an increase in customer shopping and a reduction in market retention rates. The Group applied significant rate increases across its own brand portfolio during the year which delivered an increase in own brand average premiums of 28%[2].

The Group's actions to improve profitability led to an increase in direct own brand gross written premium and associated fees of 12.7% compared with 2022 despite in-force policies reducing by 10.2% over the period. Following the commencement of the partnership with Motability, total Motor gross written premium and associated fees grew by 42.9% compared with 2022 and in-force policies grew by 9% over the period.

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

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

Prior year reserves were strengthened by £138 million in 2023 primarily reflecting a combination of increased damage costs from industry backlogs in the first half of the year, costs associated with the remediation for the Motor total loss past business review. The underwriting loss for other motor vehicle liability was £476.6 million, an increase of £247.3 million compared with 2022 (£229.3 million loss)..

Gross written premium for other motor insurance of £754.7 million in 2023, was an increase of £156.4 million compared to the prior year (2022: £598.3 million).

Notes:

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

Fire and other damage to property insurance

Gross written premium for fire and other damage to property insurance, increased by £100.0 million to £968.3 million in 2023 compared to the prior year (2022: £868.3 million).

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

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

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

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

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

General liability insurance

Gross written premium for general liability insurance was £136.8 million[1] in 2023, an increase of £14.8 million (2022: £122.0 million).

Legal expenses insurance

Gross written premium for legal expenses insurance was £63.9 million in 2023, a decrease of £7.3 million (2022: £71.2 million).

The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third-party policyholder under their motor legal protection policy against an at-fault Group policyholder, the cost will be included in motor vehicle liability insurance claims or other motor insurance claims.

Assistance

Gross written premium for assistance, of £304.5 million, increased by £17.4 million (2022: £287.1 million).
Green Flag Rescue in-force policies decreased by 5.2% to 1.0 million. The largest fall was in Linked where Rescue is sold alongside a Motor policy.

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

Miscellaneous financial loss

Gross written premium for miscellaneous financial loss of £105.9 million was £1.2 million lower compared to the prior year (2022: £107.1 million).

Income protection

Income protection insurance is no longer sold. There are no significant movements between periods.

A.3 Investment performance

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

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

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

Investment return

Investment return by asset class

Group

	2023 £m	2022 £m restated[1]
Interest income calculated using effective interest rate method:		
Debt securities	**78.9**	78.7
Cash and cash equivalents	**65.2**	13.9
Infrastructure debt	**14.8**	7.9
Commercial real estate loans	**12.9**	8.8
Total interest income calculated using effective interest rate method	**171.8**	109.3
Rental income from investment property	**16.1**	15.6
Investment income	**187.9**	124.9
Investment fees	**(9.3)**	(9.5)
Net investment income	**178.6**	115.4
Net fair value gains/(losses) on financial assets held at fair value through profit or loss:		
Debt securities	**134.1**	(370.7)
Derivatives	**(6.4)**	69.5
Equity investments	**(0.7)**	(1.6)
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	**127.0**	(302.8)
Net fair value losses on investment property	**(1.9)**	(39.1)
Net credit impairment losses on financial investments	**(0.7)**	(0.6)
Investment return recognised in profit or loss	**303.0**	(227.1)
Investment return recognised in other comprehensive income		
Net fair value gains/(losses) on equity investments measured at fair value through other comprehensive income	**2.7**	(0.6)

Note:

1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. Further information is disclosed in notes 1.1 and 40 of the Group Annual Report and Accounts 2023.

UKI

	2023 £m	2022 £m restated[1]
Interest income calculated using effective interest rate method:		
Debt securities	**79.2**	79.3
Cash and cash equivalents	**57.0**	11.5
Infrastructure debt	**14.8**	7.9
Commercial real estate loans	**12.9**	8.8
Total interest income calculated using effective interest rate method	**163.9**	107.5
Rental income from investment property	**15.5**	14.6
Investment income	**179.4**	122.1
Investment fees	**(9.4)**	(9.5)
Net investment income	**170.0**	112.6
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:		
Debt securities	**133.7**	(371.3)
Derivatives	**(6.4)**	69.5
Total net fair value gains/(losses) on financial assets held at fair value through profit or loss:	**127.3**	(301.8)
Net fair value losses on investment property	**(1.9)**	(39.1)
Net credit impairment losses on financial investments	**(0.6)**	(0.7)
Investment return recognised in profit or loss	**294.8**	(229.0)

Note:

1. Prior period comparatives have been restated on transition to IFRS 9 'Financial Instruments'. Further information is disclosed in notes 1 and 30 of UKI's Annual Report and Financial Statements for the year ended 31 December 2023.

At the Group level net investment income increased by £63.2 million to £178.6 million (2022: £115.4 million) primarily driven by yield improvements in variable rate asset classes benefiting from a rising interest rate environment.

Net fair value gains recognised through profit or loss during 2023 were £127.0 million, versus losses in 2022 £302.8 million, with a tightening of credit spreads and interest rate movements.

Investment return for UKI increased by £523.8 million to £294.8 million (2022: loss of £229.0 million), in line with the increase in Group.

Investment yields

Group

For the year ended 31 December	2023	2022 restated[1]
Investment income yield[2]	**3.5 %**	2.1 %
Investment return yield[3]	**5.9 %**	(4.2)%

UKI

For the year ended 31 December	2023	2022 restated[1]
Investment income yield[2]	**3.4%**	2.2%
Investment return yield[3]	**5.9%**	(4.4)%

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'.Further information is disclosed in notes 1 and 40 of the Group's Annual Report and Accounts 2023.
2. The income net of fees, earned from the investment portfolio, recognised through the statement of profit or loss during the period (excluding unrealised and realised gains and losses, impairments and fair value adjustments) divided by the average assets under management. The average assets under management derives from the period's opening and closing balances for the total Group or UKI.
3. The investment return recognised through the statement of profit or loss earned from the investment portfolio, including investment fees ,unrealised and realised gains and losses, impairments and fair value adjustments, divided by the average assets under management. The average assets under management derives from the period's opening and closing balances.

Investment in securitised credit

The Group does not hold any securitised credit assets within its investment portfolio.

A.4 Performance of other activities

Other operating income

Other operating income for the Group of £21.8 million (2022 restated: £8.3 million) is largely made up of legal services income and revenue from vehicle recovery and repair services to non-policyholders.

Operating commitments where the Group/UKI is the lessor

The following tables analyse future aggregate minimum undiscounted lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants.

Group

	2023 £m	2022 £m
Within one year	**14.8**	13.8
Between 1 and 2 years	**13.8**	12.6
Between 2 and 3 years	**12.9**	11.1
Between 3 and 4 years	**11.0**	10.4
Between 4 and 5 years	**9.1**	8.8
Later than 5 years	**66.8**	59.8
Total	**128.4**	116.5

UKI

	2023 £m	2022 £m
Within one year	**14.3**	13.3
Between 1 and 2 years	**13.2**	12.1
Between 2 and 3 years	**12.6**	10.7
Between 3 and 4 years	**11.0**	10.1
Between 4 and 5 years	**9.1**	8.7
Later than 5 years	**66.3**	59.4
Total	**126.5**	114.3

A.5 Any other information

Commenced new Motability partnership

After nearly two years of preparation, the Group welcomed over 700,000 Motability customers at the start of September. The partnership is forecast to deliver over £800 million of gross premium annually. The partnership is accounted for in 5 year terms but allows for six-monthly repricing to mitigate the risk of claims inflation, whilst being capital light as it is 80% reinsured.

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

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

Sale of brokered Commercial business

On 6 September 2023 the Group announced the sale of its brokered commercial insurance business to Royal & Sun Alliance Insurance Limited. Under the terms of the agreement, the Group has retained the back book of the business written and earned prior to 1 October 2023 (the "**Risk Transfer Date**"). Business written subsequent to the Risk Transfer Date will subject to a quota share arrangement between the two companies. Over time the two Companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date.

Exit of three 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.

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

The Group has adopted the requirements of IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' from 1 January 2023 on a fully retrospective basis in its IFRS financial statements for the first time.

These new accounting standards improve alignment between IFRS earnings and capital generation under Solvency II but do not affect the economics of the Group or its dividend paying capacity.

The Group's headline key performance measure has changed from combined operating ratio to net insurance margin (**"NIM"**) under IFRS 17, which the Group believes is a better measure of how the business is run.

Assets held for sale

Assets held for sale at 31 December 2023 relate to an office site in Leeds (including retail space within the property) that is no longer required. At 31 December 2022, assets held for sale also included an office site and retail space in Bromley and an office site in Ipswich that were subsequently sold during 2023.

A net impairment loss of £5.1 million (2022: £8.9 million) is included within operating expenses (as part of restructuring and one-off costs) for the write down of the carrying value of these properties to their held for sale values.

Events after the reporting period

There have been no events after the reporting period.

SECTION B: SYSTEM OF GOVERNANCE (UNAUDITED)

In this section:

This section provides information regarding the system of governance of the Group. References to Group include the Group's regulated insurance companies UKI and CIC.

Assessment of the adequacy of the Group's system of governance

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 pages 86 and 87 and of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

The Group's governance framework is detailed in the Group's Systems of Governance Framework document. This document also details how the Group meets Solvency II and the 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 annual Own Risk and Solvency Assessment ("**ORSA**") is prepared based on the latest available capital position. The conclusions of the assessment are taken into consideration in assessing the Group's risk and capital position related to the strategic plan (the "**Plan**") and approved by the Board. For more information on the ORSA, please see section B.3 "ORSA" on page 25.

Risk management and internal controls systems

The Board, with the assistance of the Board Risk Committee and the Audit Committee, and support from the Risk and Group Audit functions as appropriate, monitored the Company's risk management and internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls.

The Risk function annually produces an Internal Risk and Control Assessment ("**IRCA**") Statement to support the Board in monitoring the effectiveness of the Group's risk management and internal control systems. Under the IRCA process, each function completes a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attests to the status of the effectiveness of the risk management and internal control systems. This is supported by control testing in the first line of defence. The Risk function reviews and challenges these findings and the Group Audit function provides an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The overall findings are combined into a Group-level assessment and reported to the Board Risk Committee.

The 2023 IRCA process did not identify any material financial, operating, or compliance control deficiencies during the year ended 31 December 2023, nor any material control deficiencies that remained unresolved at the balance sheet date.

The IRCA specifically assessed the potential control implications of risk events which occurred in recent years but have further crystallised in 2023, including material customer redress provisions, and weaknesses in the Motor account trading performance.

The Group incurred material customer redress provisions of £104 million in 2023 in respect of its past business reviews relating to renewal pricing under the rules in ICOBS 6B and claims under motor insurance policies where the vehicle was deemed uneconomical to repair ("Motor Total Loss Claims"). The IRCA identified that these events were, in part, caused by deficiencies in the Group's operational and compliance controls in prior years. The underlying root causes of these control deficiencies have since been remediated, such that they did not represent an unresolved material control failure as at the balance sheet date.

In addition, the Group's 2023 trading performance has been adversely impacted by the earning of premiums priced during the exceptional inflationary UK motor claims environment in 2022. The IRCA reported that the adequacy of the Group's pricing response at that time may have been impacted by shortcomings in the resilience of its pricing and underwriting control environment when operating in those stressed circumstances. The Group has taken a number of corrective actions in 2023 to reduce the impact of this on its ongoing commercial performance.

During the year, the Group enhanced its control environment across a number of key areas including pricing and underwriting, compliance with pricing practices regulation, financial reporting, change management, and risk management in the first line. These enhancements are part of an objective to strengthen the Group's overall risk and control environment. Further work is to be undertaken in 2024 to formalise newly introduced controls, complete the programme of control remediation, and ensure that the process of risk and control assessment is updated to fully support and embed these enhancements.

Group Audit 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 2023 annual assessment of the risk management, governance and control environment did not identify any matters that conflict with the 2023 IRCA Statement.

On behalf of the Board, the Board Risk Committee reviewed the 2023 IRCA and was satisfied with the conclusion that the Group's risk management systems, including its internal control systems, were adequate for managing all material risks. The Board Risk Committee also regularly reviews significant risks and how they might affect the Group's financial position, comparisons to agreed risk appetites, and what the Group does to manage risks outside its appetite.

The Board confirms that there is an ongoing process for assessing the Company's risk management and internal control systems and identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report. The Board takes the view that, on the basis of the assessment carried out in and in respect of 2023, 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.

B.1 General information on the system of governance

The Boards

The Boards of the Company, UKI and CIC are comprised of the same persons and act as the Administrative, Management or Supervisory Body.

For details of the Company's Board, visit the Group's corporate website at www.directlinegroup.co.uk/en/who-we-are/leadership

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.

This is supported by 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 2023, the Board acted in accordance with the Schedule of Matters Reserved for the Board.

Details regarding Board meetings and Board activity during 2023 can be found on pages 104 to 105 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

Structure of the Board, Board Committees and executive management

A summary of the role of the Board, its six Committees (Audit Committee, Board Risk Committee, Nomination and Governance Committee, Remuneration Committee, Sustainability Committee and Investment Committee) and the responsibilities of the Chairman, the Chief Executive Officer and executive management can be found on page 111 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

The Terms of Reference of these Committees are available at www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

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 Group’s governance framework is detailed in the Group’s Systems of Governance Framework document. This document also details how the Group meets Solvency II and the 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.

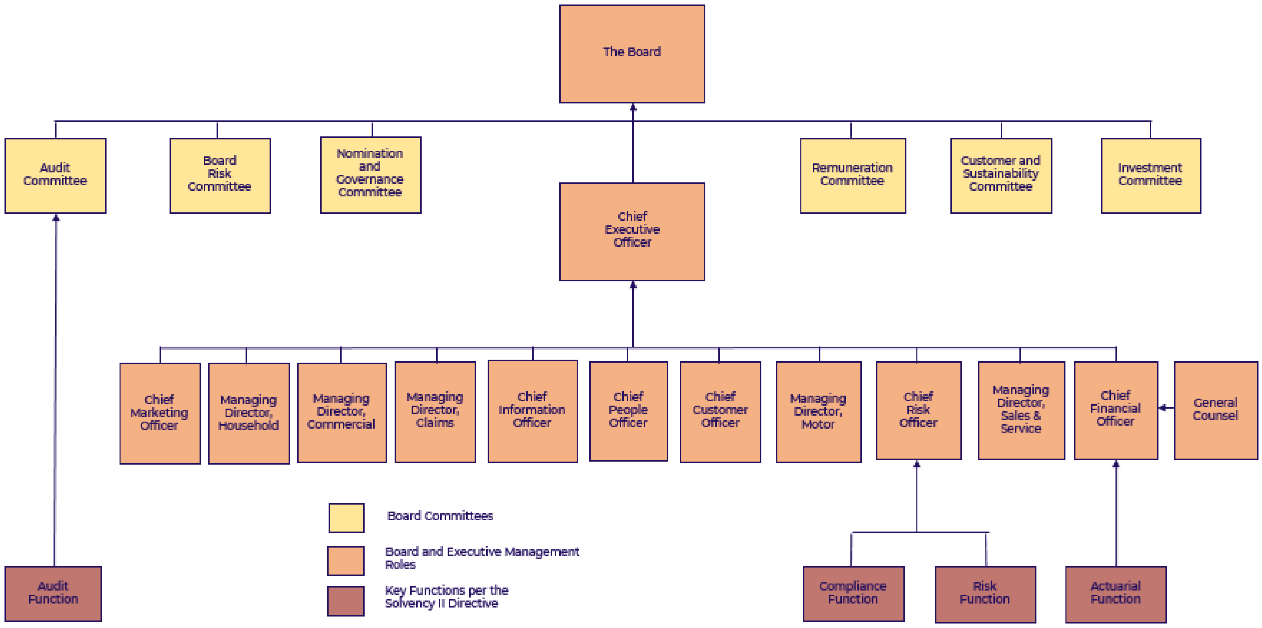
The core elements of the governance framework are the:

- 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 25;
- Enterprise Risk Management Strategy and Framework, which is described on page 25;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business 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.

Further details regarding the split of responsibilities for the different parts of the Group's governance framework can be found on page 110 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

Solvency II Key Functions

Set out below is a diagram highlighting the day to day reporting lines of the Key Functions as required by Solvency II:



Note:

1. The responsibilities of the Actuarial function holder are split between the Actuarial Director and the Director of Financial Risk.

Further information on the authority, resources and the independence of the four Solvency II Key Functions identified above is set out in sections B.3 to B.6 of this report.

Those working in the Solvency II Key Functions are subject to the provisions of the Regulatory Accountabilities minimum standard covering the Fit and Proper requirements (see section B.2) which requires them to have the necessary skills, knowledge and experience to fulfil their position. This is assessed both on initial appointment and through annual performance appraisals.

Material changes in the system of governance

There have been no material changes to the Company's system of governance during the reporting period.

Information on remuneration policy and practices

Introduction

The Group believes that employees are fundamental to the success of the Group's business, both now and into the future. As a result, the Group's remuneration policy aims to provide, in the context of the Group's business strategy, an attractive reward proposition at the right cost to attract, retain, motivate and reward high calibre employees so that they are engaged to deliver superior long-term business performance within acceptable risk parameters and having due regard to all relevant regulatory guidance.

Executive Directors: Principles of remuneration policy

The Directors' Remuneration Policy (the "**Policy**") was approved at the Company's Annual General Meeting in 2023. The Policy provides a clear and simple framework for remuneration of the Company's Directors and aligning the Executive Directors' variable pay opportunities to the business strategy and achievement of the Company's performance indicators.

The table below summarises the implementation of the elements of Executive Directors' remuneration in 2023.

Key features	Implementation in 2023
Base salary – Reviewed annually with any increases taking effect on 1 April – The Remuneration Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance and market data	– The Acting CEO's salary was £725,000 from his appointment on 27 January 2023 – The CFO received 3% increase in salary to £530,450 – The former CEO did not receive a salary increase for 2023 and her salary remained at £817,000
Pensions – 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 the employee population	– Acting CEO and CFO pension contribution remains at 9% (in line with workforce).

Key features	Implementation in 2023
Annual Incentive Plan ("AIP") – Maximum opportunity at 175% of salary for the CEO and 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	– 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 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 ("DAIP") – 40% of the AIP is deferred into shares – Typically vesting after three years, normally subject to continued employment – Malus and clawback provisions apply	– No further performance conditions apply

Long-Term Incentive Plan ("LTIP")
– 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
	– 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 in considering the transition to IFRS17. The targets will be disclosed in due course

Shareholding guidelines – To align the interests of Executive Directors with those of shareholders	– 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 an equivalent level of shareholding post their employment for a period of two years – In exceptional circumstances, earlier sale is permitted subject to the Chair's discretion

Non-Executive Directors: principles of remuneration policy

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 Senior Independent Director to reflect additional responsibilities, as appropriate.

The fees paid to the Chairman 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.

Reward for employees: principles of remuneration policy

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:

- **Annual Incentive Plan** – 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.
- **Long-Term Incentive Plan ("LTIP")** – strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- **Restricted Share 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 ("SIP")** – 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 Company 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 31 December 2023, 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.

Relative importance of fixed and variable pay

The Company ensures that the fixed and variable remuneration components of remuneration are appropriately balanced, with the fixed portion representing a sufficiently high proportion of total remuneration which allows the operation of a fully flexible policy on variable remuneration components including the possibility to pay no variable remuneration component. Fixed pay comprises base pay, benefits and pension. Fixed pay is set to be competitive against market levels. The Company monitors both the ratio of fixed to variable pay and quantum against the market. In no cases are the fixed components of pay set at levels which would then require undue reliance on incentive pay elements for living costs.

Supplementary pension or early retirement schemes

There were no supplementary pension or early retirement schemes in place for the Board or other Key Function Holders during the reporting period.

Material transactions

There were no other material transactions other than those reported in section A.5

B.2 Fit and proper requirements

Skills, knowledge and expertise of the persons who run the Group or Key Functions

The individuals were appointed to their roles following due diligence with the objective of ensuring that they had the necessary competence and were fit and proper to fulfil their positions. In making these assessments of competence due consideration was given to the individuals':

- professional qualifications, knowledge and experience to enable sound and prudent management (fit);
- character, in that they were of good repute and integrity (proper); and
- appearance on the public financial services register, where the person is a Senior Manager.

To support effective operation of this requirement, the Group requires Senior Managers, Certification Functions and Key Function Holders to:

- comply with the PRA Insurance Conduct Standards and FCA Conduct Rules, in respect of roles undertaken for UKI and CIC;
- comply with the requirements expected of Senior Managers, Certification Functions and Key Function Holders to meet as set out in the Group's Regulatory Compliance Risk policy, Regulatory Accountabilities minimum standard and Interaction with Regulators minimum standard;
- manage risks and controls that are reflected in their role profiles in accordance with the Enterprise Risk Management Strategy and Framework and as set out in the High-Level Control and System of Governance Framework document (the Group's Management Responsibility Map); and
- continue to pass the fit and proper self-assessment as part of the annual declaration process.

Process for assessing fitness and propriety of Approved Persons

The individuals are subject to the Group's Regulatory Compliance Risk policy which has its own specific minimum standard on Regulatory Accountabilities which contains requirements relating to the fitness and propriety of those persons who hold regulatory accountabilities. The minimum standard requires that individuals should notify their own line manager and the Director of Compliance, if there is any matter that may impact directly or create a perception of impacting on their ongoing fitness and propriety. The Risk function will then notify the regulator if there is information that would be expected to be material to the assessment of their fitness and propriety.

As well as being subject to ongoing formal reviews of their performance in their role, the individuals are also subject to the Group's annual self-declaration assessment of fitness and propriety. To support effective operation of this requirement, the Group:

- ensures that all Senior Managers, Certification Functions and Key Function Holders have an up-to-date role profile which is signed by both the individual and their line manager;
- ensures that role profiles for all Senior Managers, Certification Functions and Key Function Holders correctly reflect the regulatory accountabilities they hold, and includes an up-to-date structure chart;
- ensures that all individuals who have been a Senior Manager, Certification Function or Key Function Holder for the Group for more than six months have submitted to the Risk function their return from the last annual declaration of fitness and propriety; and
- ensures the Senior Managers, Certification Functions and Key Function Holders have evidence on file to show that their training needs have been kept under review, in particular that the actions they have taken regarding training are recorded within their ongoing performance reviews and within development plans.

B.3 Risk management system, including the Own Risk and Solvency Assessment

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC, and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group's regulated insurance companies, UKI and CIC.

The Board sets and monitors adherence to strategy, risk appetite and risk framework. The Group has established an on-going process for assessing the principal risks facing the Group and monitoring the effectiveness of the Group's risk management systems.

The Enterprise Risk Management Strategy and Framework document 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. It documents the high-level principles and practices to achieve appropriate risk management standards, and demonstrates the inter-relationships between components of the Enterprise Risk Management Strategy and Framework.

The Enterprise Risk Management Strategy and Framework is designed to enable the Group to manage the business with the necessary understanding of its risks and controls, as well as having appropriate oversight in place to manage risks proactively. It is aligned to the three lines of defence model and provides a comprehensive approach for managing all principal risks across the Group. A central component of the Enterprise Risk Management Strategy and Framework is the Policy Framework, which includes policies and minimum standards.

Policies address specific risk areas and are aligned to the Group's risk appetite and, 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. The Group has a review programme to ensure that the Enterprise Risk Management Strategy and Framework, policies and minimum standards remain fit for purpose.

Risk objective	Risk appetite statement
Overarching risk objective	The Group recognises that its long-term sustainability depends 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, the Group's appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the UK. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.
Maintain capital adequacy	The Group seeks to hold capital resources in the range of 140% to 180% of the internal model solvency capital requirement. UKI and CIC seek to hold own funds in excess of 128% of their solvency capital requirements.
Stable and 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 years insurance, market or credit risk event.
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.

Risk function

The Risk function is a second line of defence function, responsible for providing subject matter expert advice, challenge, and objective opinions on risk matters to the Group. The function works with the Risk Management Committee, Board Risk Committee and Board to define the Enterprise Risk Management Framework and undertakes regular monitoring of key risk indicators and risk profiles, as well as providing assurance in certain areas agreed as part of its annual plan, to determine the level of compliance with relevant regulatory requirements. The Risk function provides an objective view to the Board, via the Board Risk Committee, on whether it considers that the Group is operating within or outside its risk appetite. The Risk function also undertakes validation of the Group's Internal Economic Capital Model.

Risk Management Process

The Risk Management Process enables the Group and its regulated insurance companies to manage risk in a structured and consistent way.

The potential impacts of all risks, events and management actions are rated using an Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation across the Group. All risks are mapped to the Group risk taxonomy to support effective risk management and reporting across the business.

The risk management process is summarised below:

- Identify – identification of current and emerging risks, including risks presented through the implementation of change, which could impact on the achievement of business strategic objectives. Identification should utilise expert judgement, historical data, external data, forward-looking analysis and models.
- Assess – assessment of risks on an inherent and residual basis in terms of potential severity of impact and likelihood of occurrence. Assessments may be reached using quantitative or qualitative measures.
- Manage – management of residual risk exposure within risk appetite through the implementation of mitigating actions. Under exceptional circumstances management may explicitly accept the risk exposure outside of appetite in line with the Group's defined Risk Acceptance process. Action plans are used throughout the Group to ensure residual risk exposure is maintained at or brought back within risk appetite, to address control weaknesses or manage remediation (where required) following an event.
- Monitor – monitoring of risk exposure using key risk indicators and to ensure management actions are being delivered. The approach and frequency of risk monitoring depends on the nature of the risk and management judgement.
- Report – regular reporting of an accurate, clear and timely assessment of the risk profile and progress with management actions. Escalation of notable changes to risk profile to relevant committees and forums. RAG statuses and Risk Outlook Indicators (set out in the Risk Management Process minimum standard) are used in risk-related reports across the Group.

Implementation and integration of risk management system into the organisational structure and decision-making processes

Clear risk governance helps the Group with its objective of ensuring that risk management arrangements are effective. The Group Board delegates authority for risk management to the Chief Executive Officer, who then further delegates to the members of the Executive Committee. The Chief Risk Officer, who chairs the Risk Management Committee, has accountability for providing risk oversight.

The Group's risk governance arrangements include three lines of defence accountabilities and the risk management responsibilities of the Board, the Board Risk Committee and Risk Management Committee. The Group ensures comprehensive risk management through its three lines of defence model which can be found on page 86 of the Group's Annual Report & Accounts 2023 at www.directlinegroup.co.uk/en/investors

Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ("**ORSA**") process incorporates several underlying key processes and tools within the Group's Enterprise Risk Management Strategy and Framework which are used to manage risk and capital. These underlying processes and tools are reviewed periodically throughout the year at various governance committees enabling frequent and localised decision making.

The ORSA is facilitated by the Risk function and supported by teams within Finance. This report is taken into consideration by the Executive Committee and presented to the Board for review and the conclusions taken into consideration in assessing the Group's risk and capital profile related to the strategic plan. The agreed outcomes and conclusions of the ORSA are approved by the Board.

The ORSA report is also a supervisory tool and, as such, is used to explain to the relevant supervisory body the current and forecast capital and solvency position of the Group throughout the strategic plan period.

Risk management system for the internal model

Governance of the Internal Economic Capital Model

The Head of Validation:

- is responsible for managing the independent validation of the Internal Economic Capital Model, including production of the validation scope, framework and annual validation report; and
- is responsible for ensuring that validation tests are sufficiently robust and well documented.

Validation process of the Internal Economic Capital Model

The Group's Model Validation minimum standard is reviewed and updated on an annual basis to reflect changes in emerging practice, Solvency II requirements and structural changes within the Group.

The Internal Model Validation team is part of the Risk function, and retain full responsibility for the delivery of independent model validation.

During Q1 2024 the in-house Model Validation team completed its annual cycle of validation, which was on the year end 2023 SCR. The Head of Validation reported that nothing material had come to the Model Validation team's attention during their testing as part of the validation process that led to them recommending to the Board Risk Committee that the Internal Economic Capital Model and the surrounding processes were not a sound basis for the purposes of calculating regulatory capital under Solvency II for both UKI and Group . Key validation findings were communicated to the Internal Model Oversight Committee and Board Risk Committee in March 2024.

The Model Validation minimum standard requires the Chief Risk Officer to present the scope of validation activities envisaged for the year, as well as the validation framework to the Board Risk Committee for approval on an annual basis.

The Validation Plan is drafted in line with the Model Validation Framework, which stipulates that the Group will maintain an annual cycle of validation activity and reporting, comprising three key elements:

- an annual programme of core validation testing;
- a rolling programme of 'deep-dives' into specific validation areas to take a deeper look at whether the modelling is fit for purpose and covers regulatory requirements; and
- validation of model changes (including updates to address previous validation issues).

The Model Validation Framework document distinguishes between the key elements that will form part of the annual programme of core validation testing and deep dives. The deep dives are performed as part of a rolling programme which aims to cover all areas of the model over a three-year time period, but also considers bespoke investigations in response to a thematic review or a current area of interest.

B.4.1 Internal control system

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. This is combined with a structured system of internal policies, control activities, control assurance, as well as a wider control environment, that manages the risks associated with the successful achievement of the Group's key strategic objectives. This control framework cascades through the business units and central functions, detailing clear responsibilities to ensure the Group's operations have appropriate controls. This includes controls relating to the financial reporting process.
The Board, with the assistance of the Board Risk Committee and the Audit Committee as appropriate, monitors the Group's internal control systems that have been in place throughout the year under review, and reviews their effectiveness. The monitoring and review covers all material controls, including financial, operational and compliance controls.

The Board's monitoring and review is also supported by in its review of the annual IRCA. This process involves business units and central functions completing a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the business area, attesting 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 Group then combines the overall findings into a Group-level assessment, which the Board Risk Committee approves.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's control environment. It brings a systematic and disciplined approach to evaluating the effectiveness of its risk management, control and governance frameworks and processes.

The Board acknowledges 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.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of the Group's internal control systems. Its monitoring covers all material controls. Principally, it reviews and challenges reports from management, the Group Audit function and the External Auditor. This enables it to consider how to manage or mitigate risk in line with the Group's risk strategy.

Key procedures of the internal control system

The Group has established a number of tools to support effective implementation of the internal control system. These include:

- detailed policies and minimum control standards which articulate the controls required to manage risks that the Group is exposed to;
- a review programme to ensure that policies and minimum control standards remain fit for purpose;
- management of risks through risk assessment, action and event management; and
- provision of advice and guidance by minimum control standard owners to the first line of defence in discharging their responsibilities.

Additionally, the Group has a number of processes that demonstrate the proactive use of the Enterprise Risk Management Strategy and Framework. These include:

- regular, at least annual, review of the Group's risk appetite statements;
- formal risk management reporting to the Risk Management Committee and Board Risk Committee as well as regular risk reporting from other risk committees and forums;
- the risk management process;
- the material risk assessment;
- the ORSA;
- adherence to the Group's risk policies and minimum standards;
- use of the Internal Economic Capital Model to inform and support decision-making;
- stress testing and scenario analysis; and
- the Internal Risk and Control Assessment process.

B.4.2 Compliance function

The Compliance function is a second line of defence function, which is responsible for providing advice and guidance to the Group regarding compliance with both conduct and prudential regulatory requirements. The Director of Compliance, who is approved as a Senior Manager is responsible for the Compliance function. The Compliance function works with colleagues from across the Risk function and management throughout the business to fulfil this responsibility.

The Regulatory Compliance Risk policy and associated minimum standards outline the role of the function. These policies, approved by the Board, provide the high-level requirements to ensure that the Group remains compliant with supporting minimum standards. Other areas of compliance risk are covered by a number of separate policies and minimum standards on specific topics. All employees are required to undertake annual online training of relevant subject areas.

In addition to the policies and minimum standards, the Compliance team undertakes the following with the objective of ensuring compliance with regulatory requirements:

- attendance at and/or chairmanship of governance forums; for example, the Financial Crime Steering Committee, Conduct Regulatory Risk Forum, Operational Risk Committee, Customer Conduct Committee, Risk Management Committee and Board Risk Committee;
- monitor regulatory developments and report areas of interest to management and the Boards;
- monitor adherence to risk appetite through the tracking of key risk indicators;
- manage incidents as they arise;
- provide advice and guidance;
- provide training;
- contribute to Internal Risk and Control Assessment;
- provide assurance and effectiveness reviews undertaken by the Compliance and Conduct Assurance team; and
- support regulatory reviews, including thematic reviews.

B.5 Internal audit function

The Group Audit function supports the Board and Executive Management ("**the Executive**") in their aim to: (i) achieve their strategic and operational objectives; (ii) protect the assets, reputation and sustainability of the Group; and (iii) discharge their corporate governance responsibilities.

This is achieved by:

- providing independent assurance that the risk management processes and controls established by management are adequate, effective and sustainable to manage key business risks, including reviewing any lessons learned analysis if a significant event has occurred;
- assessing whether all significant risks are identified by management and the Risk function and reported to the Board and the Executive;
- challenging the Executive to improve governance, risk management and control activities, including challenging the definition and monitoring of risk appetite performed by the Risk function;
- challenging the effectiveness and efficiency of processes and controls that support strategic and operational decision making and assessing the appropriateness and reliability of management information presented to the Board and the Executive;
- providing a Group-wide view of specific risk and control themes emerging from Group Audit work, including considering current and emerging factors and how business processes support a customer focus and compliance with conduct requirements;
- in conjunction with the Risk function, offering an assessment of management's risk behaviours and attitudes;
- when considered appropriate or on request – providing independent assurance over key corporate events, such as new products and services, outsourcing, acquisitions or divestments;
- when considered appropriate – providing independent, objective assurance and opinion-based activities designed to add value and to improve the risk and control performance of the organisation; and
- being available to the Board, as required, to provide an independent investigations service, for example in those circumstances where it would be inappropriate for the Risk function to undertake an investigation.

Group Audit presents a quarterly report to the Audit Committee summarising the results and analysis of audit activity in the preceding quarter. On an annual basis, Group Audit presents a report which provides an independent assessment of the overall effectiveness of the governance, and risk and control framework of the Group, and its conclusions on whether the Group's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from Group Audit work and their impact on the Group's risk profile. Group Audit are not part of the system of risk control or compliance. Group Audit do not:

- take accountability for the Risk Management Framework and processes;
- represent the Executive's assurance on risks; or
- take decisions on risk mitigation or implement risk mitigation actions on behalf of the Executive.

Independence and objectivity of internal audit

To both preserve and reinforce the independence and objectivity of Group Audit, the primary reporting line for the Group Head of Audit is to the Chair of the Audit Committee who is an independent non-executive director. The Audit Committee is responsible for the appointment and removal of the Group Head of Audit. The Chair of the Audit Committee sets objectives for the Group Head of Audit and recommends remuneration for the Group Head of Audit to the Remuneration Committee. The Group Head of Audit communicates and interacts directly with the Audit Committee and with members of the Audit Committee in between Audit Committee meetings or where escalation is required.

The Group Head of Audit also maintains a reporting line to the Group Chief Executive Officer, to report on the outcome of audit activity and assessments on the Group control environment.

The independence and objectivity of Group Audit is maintained through being exempt from undertaking any executive or operational duties, or any other activity, that may impair the judgement of Group Audit. Group Audit remains free from interference by any element in the Group, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of independence and objectivity. Group Audit has processes in place to manage conflicts of interest and, where used, co-source providers are subject to the same independence requirements as Group Audit. The Group Head of Audit confirms to the Audit Committee, at least annually, the organisational independence of Group Audit.

Rights and authorities

Group Audit's scope is unrestricted and covers all activities undertaken by, and on behalf of, the Group and its subsidiary companies. Group Audit has the right of access to:

- Group Non-Executive Directors and the Executive, including those of all subsidiary companies;
- the Audit Committee, Board Risk Committee, Executive Committee, and any other relevant committee, either through attendance or receipt of papers and minutes in relation to meetings; and
- all operations of the Group and any subsidiary companies, third parties and joint ventures, including unlimited access to all organisational activities, data, records, people and physical properties needed to perform Group Audit activities.

Group Audit also has the right to be informed promptly of a major potential or actual risk management or control failure and any major acquisition, re-organisation or disposal that may have a material impact on the risk management and control environment.

B.6 Actuarial function

The Actuarial function for the Group forms part of the first line of defence which is the responsibility of a single Actuarial function holder.

The Actuarial function co-ordinates and performs the calculation of technical provisions and conducts actuarial risk management, including opinions on underwriting and reinsurance. The Actuarial Director is the chief actuary who fulfils these responsibilities.

The Actuarial function meets the requirements of Solvency II with the following activities undertaken during the reporting period:

- co-ordinating and performing the calculation of technical provisions:
  - ensuring the appropriateness of methodologies used in the calculation of technical provisions;
  - assessing the sufficiency and quality of data used in the calculation of technical provisions;
  - comparing best estimates against experience; and
  - informing Group management of the reliability and adequacy of technical provisions;
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements; and
- contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements, and to the ORSA..

The contribution to the effective implementation of the risk management system is additionally met through the supply of technical provisions to the Internal Economic Capital Model and the balance sheet.

The function is sufficiently composed of qualified actuaries to meet the skilled persons' requirement of actuarial functions. The activities of the Actuarial function are documented in the Actuarial Function report and submitted annually to the Board.

B.7 Outsourcing

The Supplier Management and Outsourcing Policy ensures the Group undertakes a consistent approach to the management of risks from the sourcing and appointment of external suppliers of goods and services in line with the risk appetite set by the Board. The policy provides a framework within which the Group manages its outsourcing and external supplier risk exposure where external supplier risk is defined as the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of external suppliers, outsourced service providers and intragroup relationships.

This framework details the defined sourcing approach when procuring the services and providing regular oversight of the performance of third parties in relation to key contractual requirements. This is particularly with respect to external suppliers that are deemed to provide a material, critical and important service to the Group and therefore, ultimately, to its customers. These are services of such importance that weaknesses or failure of those services would cast doubt upon the Group's ability to comply with its key regulatory obligations or deliver its services to policyholders and as such processes and activities undertaken within sourcing and contract management have been refined to include requirements specific to these outsourced services.

The first line of defence identifies, assesses, manages and monitors all types of outsourcing and external supplier risks in line with the Enterprise Risk Management Strategy and Framework. Where additional guidance is required in respect of outsourcing and external supplier risk, the Procurement & Supply Chain function is consulted. The Group categorises relationships with external suppliers as follows:

- outsourcing arrangements are those of any kind between the Group and a service provider by which that service provider performs a service or an activity that would otherwise be undertaken by the Group;
- material, critical or important outsourcing arrangements are the outsourcing of a function or activity that is so important that the Group would be unable to deliver its services to policyholders without that function or activity. In the UK, all relevant arrangements must be notified to the appropriate regulator, through the second line of defence Compliance function, in advance of such activity taking effect;

- intragroup outsourcing is the provision of services which are material, critical or important by one entity to another within the same Group; and
- external suppliers are third-party organisations providing goods or services to the Group or directly to the Group's customers on the Group's behalf but exclude commission payments to brokers.

Where intragroup arrangements are in-force, the Supplier Management and Outsourcing minimum standard owner is to convene a review on an annual basis to ensure that the agreements remain current and reflect the appropriate service provisions and providers. This review, as a minimum, will include representation from the Group Legal, Procurement, Risk and Compliance functions. The review aims to help ensure that intragroup arrangements are all correctly identified and supported by an appropriate agreement, and any changes required given the Group's corporate structure and the activities being undertaken are identified. Agreements are filed with the Company Secretariat function.

The intragroup agreements that currently exist are between DL Insurance Services Limited ("**DLIS**") and UKI, DLIS and CIC, and DLIS and U K Insurance Business Solutions Limited. These have been classified as material intragroup outsource agreements due to the Key Functions and services that are provided by DLIS to the regulated entities. Key Functions and services provided by DLIS include administration, operational support, and managerial advisory services; these are primarily provided from within the UK.

The Group outsources several critical or important activities to various third parties. The Group maintains, manages and provides oversight of these activities in line with the Supplier Management and Outsourcing minimum standard. These activities are provided from third parties within the UK, with the exception of a wide range of back office services across claims, customer operations, commercial and finance that are provided from third parties in India and South Africa.

B.8 Any other information

There is no other information.

Section C: RISK PROFILE (UNAUDITED)

In this section:

The risk management process outlined in B.3 aims to enable the Group to manage risk in a structured and consistent way and ensure continued effectiveness of the Group's risk mitigation techniques.

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group regulated insurance companies, UKI and CIC. The Group's risk profile has remained broadly unchanged over the year.

Prudent person principle and management of invested assets

The prudent person principle defined in Article 132 of the Solvency II Directive includes provisions on how undertakings should develop and maintain investment strategy, manage risks arising from investments and maintain internal governance within the Investment Management and Treasury function.

Prudence is evidenced in the manner through which investment strategies are developed (with reference to the Group's liabilities and capital), implemented and monitored and the guidance and oversight provided by the Investment Committee and Board.

The Investment Management and Treasury function is responsible for ensuring that the Group only invests in assets and instruments where the risks can be properly identified, assessed, managed, monitored, controlled and reported in accordance with the Group's Enterprise Risk Management Strategy and Framework and, in particular, the Investment Risk policy. All assets are invested taking into consideration the aggregate security, liquidity, quality and profitability parameters for the investment portfolio.

Assets are invested in an appropriate manner with the objective of ensuring their nature and duration match technical provisions to mitigate a loss which could arise from the imperfect matching of the timing and size of the cash flows from the investments and those linked to liabilities. The Investment Management minimum standard requires the Investment Management and Treasury function to perform an asset and liability matching exercise at least annually for each material regulated entity and recommend any changes to asset classes, strategic asset benchmarks or the use of derivatives to improve, inter alia, the matching of cash flows.

The framework ensuring assets are invested in a prudent manner and subject to effective ongoing monitoring is characterised by the following points:

- limiting investment in assets not admitted to trading on a regulated financial market;
- ensuring investment benchmarks for cash, gilts and other high-quality liquid assets are calibrated to be consistent with the Group's analysis of liquidity requirements in stressed scenarios;
- diversifying exposure using benchmarks and limits to avoid excessive reliance on any particular asset class, issuer, group of companies, industry or geographic area;
- ensuring detailed credit assessments are undertaken prior to investing in any asset or transaction and such assessments are updated at suitable intervals;
- measuring and monitoring risk exposure across the entire portfolio on a daily basis;
- reviewing the performance of all asset classes against market conditions and investment guidelines set;
- providing senior management and the Risk function with comprehensive monthly management information reporting; and
- ensuring no uncovered or speculative use of derivatives occurs.

C.1 Underwriting risk

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. In Q3 2023, under its new partnership, the Group began underwriting vehicle insurance for over 700,000 members of the Motability scheme which is designed to enable disabled people, their families and their carers to lease a new car, scooter or powered wheelchair, using their disability benefit. .The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small to 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 the 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.

Pricing risk

Pricing risk is the risk of economic loss arising from business being incorrectly priced or inappropriately underwritten. Key risk drivers include:

- poor or insufficient data or data quality or inappropriate assumptions built into pricing models;
- errors within or inappropriate use of pricing models; and
- regulatory changes, such as pricing practices which may place new restrictions on pricing.

Underwriting risk

Underwriting risk is the risk that future claims experience on business written is materially different from expected, resulting in current-year losses. Key risk drivers include:

- catastrophe and weather-related claims which may arise giving rise to material current year losses;
- claims inflation may be higher; and
- claims frequency may be higher than expected.

Distribution risk

Distribution risk 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. Key risk drivers include:

- changes in the underwriting cycle may restrict the Group's ability to write planned volumes of profitable business; and
- implementing regulation such as the FCA's PPR regulations has changed the insurance market dynamics as firms adapt their approach to trading to achieve compliance.

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 future 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.

Risk concentrations

The Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group's business is written in the UK general insurance market. The Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200 year windstorm/storm surge and flood losses. The programme renews annually on 1 January and the existing cover for the period 1 January 2024 to 31 December 2024 has a retention of £100 million per weather event and an upper limit of £1,000 million and;
- product concentration risk – the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers.

It is important to note that none of these risk categories is 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.

Management and mitigation

Reinsurance is the main risk mitigation technique purchased in order to:
- protect the underwriting result against low-frequency, high-severity losses through the transfer of catastrophe claims volatility to reinsurers;
- protect the underwriting result against unforeseen volumes of, or adverse trends in, large individual claims in order to reduce volatility, control the Group's capital requirements and improve stability of earnings; and /or;
- transfer risk that is not within the Group's current risk appetite.

Underwriting, pricing and distribution risk is managed through a range of processes and controls:
- underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data;
- a range of key performance indicators tracking underwriting performance are regularly monitored and reported to senior management;
- governance on model change provided by various committees and the internal audits conducted by underwriting; and
- the Group invests in enhanced external data to analyse and mitigate exposures.

Reserve risk is managed through a range of processes and controls:

- regular reviews of the claims and premiums, in line with the Solvency II Delegated Acts for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- use of reinsurance programmes, through Motor, Liability, Property catastrophe, and Travel, which are renewable annually;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

Risk sensitivity methods, assumptions, stress testing and sensitivity analysis

Multiple major weather events

Catastrophe events are a material driver of underwriting risk for the Group with reinsurance as an important mitigation.

Ogden discount rate and periodic payment orders

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as the change in the Ogden discount rate to minus 0.25% in England and Wales which took effect from 5 August 2019 under the Civil Liability Act 2018. This rate is set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases. In September 2019, the Scottish Parliament announced that the Ogden discount rate in Scotland would remain at minus 0.75% under the Damages (Investment Returns and Periodical Payments) (Scotland) Act.

Further reserve revaluation may be required in future, as under the new review processes the Ogden discount rate will be reviewed again at the latest in 2024.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made typically over the lifetime of the injured party. Under IFRS17 all claims reserves are held on a discounted basis and so are sensitive to changes in the discount rate,however this sensitivity tends to be more significant to the Group's PPO reserves given their longer duration.

Claims inflation and the cost of living crisis

The global geopolitical situation, including the ongoing war between Russia and Ukraine affected Europe's energy supply contributing to inflation rate highs at the start of 2023, with rates reducing somewhat over the year. Interest rates reached their peak in Q3 2023. The global economic environment including the UK remains uncertain, driven by slow growth prospects with GDP growth remaining flat as high borrowing costs weigh on investment and consumption. The risk of a recession is still present and a persistent cost of living crisis would be heightened by further interest rate increases, which the Bank of England has not ruled out to ensure that the 2% inflation target is met by the second quarter of 2025. This would be expected to adversely impact both customers and businesses.

The Group's reserves and claims from underwritten policies are exposed to the risk of changes in claims development patterns arising from inflation. 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.

Climate change

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 recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from regulators and investors. Climate change risks can be divided into three categories: physical, transition and liability risks. The climate-related underwriting risk in relation to the Group's liability insurance products remains a less material exposure and has reduced following the sale of the Commercial Broker business.

As part of embedding the management of these climate-related financial risks, the Group participated in the Bank of England's Climate Biennial Exploratory Scenarios exercise during 2021, and the second round of analysis in early 2022. This stress testing exercise aims to understand the impact on the Group and the Company of future climate scenarios incorporating physical and transition risks.In 2023, the Group updated the physical risk section of the underwriting liabilities analysis to account for portfolio and modelling changes.

The Group will continue to develop its risk management systems and monitoring tools for physical risk building on the work undertaken to complete the Climate Biennial Exploratory Scenario.

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. 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 expects these specific risks to materialise in the medium to longer-term and 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. The Group has committed to a climate change roadmap from which to assess, monitor and take the necessary actions to mitigate this risk where appropriate. Progress against this roadmap is monitored by the Climate Executive Steering Group.

Solvency ratio sensitivity analysis

The following table shows the Group's solvency ratio sensitivities to four insurance risk events, estimated based on an assessed impact of scenarios as at 31 December 2023.

Other potential risks beyond the ones described could have an additional financial impact on the Group.

	Impact on solvency capital ratio	
Scenario	**31 Dec 2023**	31 Dec 2022
Deterioration of small bodily injury motor claims equivalent to experienced in 2008/09	**(5pts)**	(5pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(9pts)**	(10pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(7pts)**	(10pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[2]	**(15pts)**	(10pts)

Notes:

1. Sensitivities are calculated under the assumption full tax benefits can be realised.
2. The PPO inflation assumption used is an actuarial judgement which is based on a range of factors including the economic outlook for wage inflation relative to the PRA discount rate curve excluding any change in discount rate. Scenario updated to the latest PPO inflation assumptions with discount rates held constant.

C.2 Market risk

This 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.

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 spread risk may change owing to external factors such as economic and global political uncertainty.

To mitigate against credit spreads widening in view of the global economic uncertainty in the first three quarters of 2023, maturities from the in-house short and intermediate sterling portfolios were not immediately reinvested. In Q2 2023 DLG undertook a strategic asset allocation exercise in relation its investment portfolio. The proposals from the strategic allocation exercise were reviewed by the Investment Committee and the recommendations are being approved by the Investment Committee on a phased basis. The first changes to the investment portfolio following approval were implemented in Q4 2023, which involved increasing the proportions invested in UK gilts and US credit holdings, with the aim of increasing yields on assets with higher spread risk.. Further changes will be brought to the Investment Committee for approval in 2024.

Net interest rate risk

This is the risk of loss from changes in the term structure of interest rates or rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated Tier 2 notes with fixed coupon rates with a nominal value of £260 million that were issued on 5 June 2020 and perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US dollar and Euro corporate bonds, the Group hedges its exposure to US dollar and Euro interest rate risk using swaps, excluding £307.4 million of US dollar short duration high yield bonds (2022: £286.8 million), £137.3 million of US dollar subordinated financial debt and £118.1 million of Euro subordinated financial debt (2022: £134.4 million US dollar and £93.6 million respectively).

The Group is exposed to the following interest rate benchmarks within its hedging relationships: GBP SONIA, USD SOFR and EURIBOR. The 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 Group's infrastructure loans as at 31 December 2022 have transitioned away from GBP LIBOR 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.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2023, the value of property investments was £277.1 million (2022: £278.5 million). The property investments are located in the UK.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates. Exposure to currency risk is generated by the Group's investments in US dollar and Euro denominated bonds.

The Group maintains exposure to US dollar securities through £763.1 million (2022: £751.0 million) of investments in US dollar bonds and Euro securities through £219.1 million (2022: £165.4 million) of Euro bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities. Currency risk is not material at Group level.

Risk concentrations

Concentration risk arises from inadequately diversified portfolios of assets, in particular:

- large exposures to individual groups;
- large exposures to certain industry sectors;
- large exposures to certain geographies ;
- large exposures to exchange rate fluctuations – the Group holds a significant proportion of its assets in US dollar; and
- large exposures to different groups where movements in values and ratings are closely correlated for any other reason.

The Group manages and controls the concentration risks as part of its market risk mitigation techniques, which are described below.

Management and mitigation

The Group manages and controls the risks in its investment portfolio through:

- strategic asset allocation within the investment portfolio is reviewed by the Investment Committee which makes recommendations to the Board for its investment strategy approval;
- diversification of the types of assets, and tight control of individual credit exposures; and
- risk-reduction techniques, such as hedging foreign currency exposures with forward contracts and hedging exposure to US interest rates with swap contracts.

The Group's Investment Risk policy and related minimum standards require the first line of defence, in this case the Investment Management and Treasury function, to undertake an asset-liability management study at least annually. The study must consider the following:

- mitigation of interest rate risk, typically using key rate duration analysis;
- the implications and rationale for mismatches pursued when backing liabilities on the balance sheet, for example 'real growth' asset strategy supporting inflation linked periodic payment orders;
- suitability and appropriateness of Group asset classes given the risk appetite of the Group and capital position; and
- overall expected returns from the investment portfolio given regulatory capital employed.

The quality of assets held in each segregated portfolio is controlled through investment mandates detailing acceptable credit ratings, issuer concentration limits and prohibited holdings.

The operating framework used by the Investment Management and Treasury function, evidenced through the written internal procedures framework and contractual and service level requirements in place with external service providers employed, is designed to ensure:

- assets owned are held securely, with holdings verifiable independently by the Group;
- encumbered assets, for example those allocated as collateral, can be identified easily;
- actual returns received can be measured versus benchmark criteria set and budgeted return assumptions; and
- aggregate and individual asset holdings can be monitored against the key risk controls set; for example, strategic benchmark weightings, credit ratings, issuer exposure limits and credit duration limits.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function is responsible for monitoring the regulatory capital requirement to support the investment strategy. To support this, they perform stress tests on the capital, and identify management actions should such stresses occur. Additional review of the stress testing and scenario analysis performed by the Finance function is carried out by the Risk function. The 1-in-200 stress scenario is calculated by the Capital Modelling team within the Finance function on a quarterly basis to monitor changes in market conditions on likely capital requirements. Losses may arise from:

- the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;
- assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility;
- the imperfect matching of the timing and size of the cash flows from the investments and those linked to the liabilities; and
- the sensitivity of assets to the level or volatility of market prices of property.

The following table shows the Group's solvency capital ratio sensitivities to two market changes, estimated based on an assessed impact of scenarios as at 31 December 2023.

	Impact on solvency capital ratio	
Scenario	**31 Dec 2023**	31 Dec 2022
100bps increase in credit spreads[1]	**(5pts)**	(5pts)
100bps decrease in interest rates with no change in the PPO discount rate[2]	**(6pts)**	(2pts)

Notes:

1. Includes only the impact on assets held at fair value through profit or loss (excludes assets held at amortised cost) and assumes no change to the SCR..
2. Scenario updated to latest PPO inflation assumptions and to include change in expected investment return on cash holdings. The 2022 sensitivity has been restated on a like for like basis.

C.3 Credit risk

This is the risk of loss resulting from defaults in obligations due from 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 two forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk; . Oversight for broker exposure risks related to the Commercial broker business is monitored by the NIG Credit Committee which reports into the Commercial Risk Committee. 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. Periodic payment orders have the potential to increase the ultimate value of a claim and 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.

Risk concentrations

Concentration risk arises from inadequately diversified exposure to creditors, in particular:

- large exposures to individual assets (either bond issuers or reinsurers); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Management and mitigation

- credit limits are set for all brokers and reinsurers and the Group actively monitors those credit exposures;
- reinsurance is only purchased by the Group only from reinsurers that hold a credit rating of at least A– for short tail reinsurance and the majority of long tail reinsurance to be purchased from reinsurers rated A+ or above with a maximum of 10% of the risk to be placed with reinsurers with a rating between A- and A+ rating at the time cover is purchased; and
- a key mitigant to credit risk under the quota share agreement is the quarterly funds withheld mechanism, whereby residual credit risk exposure only occurs when the subject accident year is in a loss-making position. A similar funds withheld mechanism has been adopted for the quota share reinsurance agreement with Royal & Sun Alliance Insurance Limited in respect of the brokered commercial business entered into in Q3 2023.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function monitors the regulatory capital requirement to support the business strategy employed. They perform stress tests and identify management actions should such stresses occur. One stress test considered the impact of the Group's largest reinsurer defaulting, which would lead to a financial loss of approximately £190 million if no recoveries could be made. However, as the default of the Group's largest reinsurer is considered to have a return period of beyond 1-in-200 years, this result will not materially impact the capital requirements of the Group.

C.4 Liquidity risk

Liquidity risk is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations when they fall due.

Liquidity risk is considered to be immaterial to the SCR for the Group, UKI and CIC. However, the Group is exposed to risk events that could impact liquidity such as a single or multi windstorm event or an overnight liquidity strain arising from a large foreign exchange movement.

Management and mitigation

The annual liquidity study assesses the Group's liquidity requirements and considers access to liquidity in stressed scenarios. 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 Management and Treasury team are required to put in place a liquidity plan which must consider expected and stressed scenarios for cash in-flows and out-flows 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.

At a more granular level, access to liquidity in stressed scenarios is met through holdings of cash, money market funds and other high-quality liquid assets such as sovereign debt securities. The aggregate exposure to illiquid assets is also monitored as part of the aggregate portfolio consideration.

Additional initiatives to support liquidity include sovereign debt security repurchase agreement lines in place. These will enable any short-term material cash requirements that arise which have not been forecast to be covered without unnecessary sales of sovereign debt securities and the associated realised gains or losses on the sale.

The Investment Management and Treasury function forms an integral component of the Group's annual strategic plan process and forecast updates during the year. Where assets under management are expected to rise or fall materially in the next two years, the Investment Management and Treasury function produces proposals for approval by the Investment Committee detailing how liquidity will be managed and maintained.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The expected profit in future premiums ("**EPIFP**") is calculated to assess the impact on own funds of a lapse in certain policies and provides a measure of the insurer's exposure to liquidity risk. It is not a measure of overall profitability of the business, for example it does not allow for all sources of income (e.g. ancillary or investment income); it is calculated on a different expense basis to that of ongoing operating expenses; it does not allow for the development of prior year claims provisions; and it is affected by seasonality of the business written over the year. The amount as at 31 December 2023 for Group and UKI was £245.0 million.

EPIFP figures are calculated, and included in this report, in accordance with the regulatory requirements of Solvency II. EPIFP is not a measure of any element of the profit for the Group and is not to be construed as a profit forecast for the Company or any part of the Group or interpreted to set a floor to the profits of the Company or any part of the Group. In addition, attention is drawn to the 'Forward-looking statements disclaimer' in section F.3 of this document, which applies, without limitation, to EPIFP.

The Liquidity Risk minimum standard requires the Investment Management and Treasury function to maintain short-term cash flow forecasts to ensure ongoing operational liquidity requirements are met. The function is also required to hold minimum levels of liquidity to meet stressed requirements on an overnight basis, within one month and within three months.

C.5 Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events. It is the broadest of the risk categories, and the current risk assessment is driven by different sources of operational risk including those associated with the criticality of technology to the Group's operations, the cyber threat landscape, the Group's reliance on material outsourced providers and critical suppliers, and the depth and breadth of internal change required to achieve strategic aims. In addition to this, how the various risk sources overlap and require significant management focus to enable the Group to remain operationally resilient.
Technology remains at the heart of the Group operations and focus is on continuing to improve Group IT systems and capabilities, aimed at building resilience in by design, simplifying the Group's technology estate, expanding the Group's digital offerings, capitalising on the Group's data, enhancing customer experience and overall increasing operational efficiency. Progress has been made in each of these areas, but implementation and integration of a range of new IT systems remains inherently complex and challenging.

Risk concentrations

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 there is a dedicated focus on ensuring the Group has a robust resilience framework to mitigate Operational Risk.

Management and mitigation

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 is continuing to work on improving the performance of its IT systems in that environment, moving to suitably resilient technologies, while focusing on developing current/future system capability. With significant strategic investment the Group continues to drive forward its aim to deliver its digital-first customer experience and remains on track to further strengthen its change implementation controls and mitigate potential impacts related to data, technology, security and operational resilience.

The Group's risk management framework is designed and continues to be enhanced 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.
The performance of outsourced activities is also actively monitored by the Group.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Group's operational risk quantification utilises a scenario-based approach to model each material risk and quantify the capital requirement at the 1-in-200 year level.

C.6 Other material risk

Regulatory and conduct risks

The FCA placed two requirements on the Group in 2023. In June 2023, the Group was required to carry out a past business review of Motor total loss claims settled between 1 September 2017 and 17 August 2022 to identify any policyholders who received unfair settlements and provide them with appropriate redress. In September 2023, the Group was required to carry out a past business review of renewal prices charged since 1 January 2022 to identify any that did not comply with the rules relating to use of tenure and provide policyholders with appropriate redress.

The Group's conduct risk management framework is designed to deliver fair outcomes to customers and has continued to be developed in accordance with the FCA's increased expectations, and key areas of regulatory focus particularly around Consumer Duty product governance and pricing.

The Group continues to carry out planned risk-based monitoring of customer processes as well as more targeted thematic reviews which consider strategic or regulatory projects to help manage the risk of poor customer outcomes.

In addition, 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 2023, this included:

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

Reputational risks

Reputational risk is not considered a material risk in its own right within the Group; however, it is considered in assessing the exposure of other risk types such as compliance, change, financial reporting, partnership contractual obligations, outsourcing and conduct risks. In particular, were the Group to suffer a significant cyber breach, loss of service, or a reduction in solvency coverage, these could have significant reputational impacts which would need to be managed.

To manage reputational risks within appetite, the Group both seeks to address the primary risks, but also has mitigation plans in place to react to reputational risk directly as it develops (for example, through proactive stakeholder management and communication strategies).

Strategic risks

Risks associated with strategy, design and implementation are considered within the Material Risk Register and monitored by the Executive Committee. Risks which may impact the Group's ability to achieve its strategic goals manifest across the Material Risk Register. The Group's approach to managing strategic risks within appetite is to address those primary risks. The Group's operational risk quantification utilises a scenario-based approach to parameterise the stochastic modelling of each material operational risk and quantify the capital requirement at the 1-in-200 year level. Strategic risk is not explicitly modelled in the Group's partial internal model SCR.

C.7 Any other information

Effects of macroeconomic and trading environments on the Group

The UK continues to face 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 it remains alert to possible developments across the 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 objectives. 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 risk themes process are outlined below.

Transition to low carbon economy including 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 2023, the Group has continued to develop the Climate Change Roadmap to further embed climate risk controls and opportunity management across the business. Progress against the Roadmap is monitored by the Climate Executive Steering Group and actions include enhancing climate change risk identification within the enterprise risk framework and enhancing existing risk framework components to enable more effective assessment and monitoring of climate change risks.

.

C. RISK PROFILE continued

The Group continues to monitor these risks closely and to develop its climate change modelling capability. Further details on the risk management approach to climate change are included in the Group's annual report, 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

In 2023, the Group has implemented and embedded the Consumer Duty principles, along with continuing to review and understand customers' needs.

Keeping up with digital advancements

Developments in technology and changes in market, regulatory and consumer trends are creating opportunities for new entrants to profitably exploit new distribution channels, business models and niches. Failure to keep up with such developments could lead the Group to fall behind. To mitigate this, the Group is delivering multiple programmes to provide the Group with the capabilities to enable its offerings to compete with new entrants, for example InsureTech.

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, the Middle East, Russia/Ukraine and China/Taiwan) 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**"), including Generative AI and machine-learning. These trends together could lead to data being used in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes.
The Group has embedded a Data Ethics Framework, and Data Ethics principles which are now well established and have been tested via the Data Ethics committee.

SECTION D: VALUATION FOR SOLVENCY PURPOSES

In this section:

D. VALUATION FOR SOLVENCY PURPOSES

Section D is subject to external audit, with the exception of the text and figures relating to risk margins (which are included within technical provisions). These are excluded from the scope of external audit as they are derived from the Group's partial internal model and UKI's internal model which are used to calculate the Group and UKI SCRs respectively; these SCRs are also unaudited.

D.1 Assets

Valuation methodology

The Group values all assets, excluding reinsurance receivables, goodwill and intangibles, at fair value in the Group, UKI and CIC Solvency II balance sheets, which represent an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. When fair value is not readily available because the market is not deeply liquid, an alternative method of valuation is required. Assets that require the use of an alternative method of valuation are covered in section D.4 Alternative methods of valuation. Asset recognition and valuation bases have been applied consistently during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted. Reinsurance receivables are included in section D.2 Technical provisions.

Group accounting policy – fair value

The accounting policies and the basis of valuation used in the Group IFRS financial statements and individual IFRS financial statements of its subsidiaries are consistently applied, and described in the Group's Annual Report & Accounts 2023 within 'Notes to the consolidated financial statements', note 1 'Accounting policies', which starts on page 179.

Fair value is best demonstrated by reference to a quoted price in an active market. A market is regarded as active 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, 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.

Fair value for derivatives is 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. Valuation models use inputs for contractual terms and the specific risks inherent in the instrument, market prices, credit curves, yield curves, measure of volatility and correlations of such inputs.

For investment property, fair value is based on current prices using a valuation model that predominantly uses unobservable inputs. Valuations are compared with recent market transactions for similar properties and adjusted for the specific characteristics of each property.

When valuing assets and liabilities in accordance with Solvency II, the fair value hierarchy set out below is followed, which is consistent with the fair value measurement hierarchy as applied under IFRS:

Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include debt securities held at fair value through profit or loss for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments. Level 2 also includes quoted equity investments that the Group holds for which prices are available however, the market transactions upon which those prices are based are not considered to be regularly occurring.

Level 3 fair value measurements used for investment properties, debt securities held at amortised cost, infrastructure debt, commercial real estate loans, unquoted equity investments and other loans are those derived from a valuation technique that includes inputs for the asset that are unobservable. Debt securities held at amortised cost are private-placed securities which do not trade on active markets, these are valued using discounted cash flow models designed to appropriately reflect the credit and illiquidity of these instruments. The key unobservable input elements from the discount rate used across private debt securities is the credit spread which is based on the credit quality of the assets and the illiquidity premium. Infrastructure debt and commercial real estate are loans which do not trade on active markets. Valuations are derived from external asset managers' credit assessment and pricing models. These aim to take into account movements in broader credit spreads and are aligned to varying degrees with external credit rating equivalents. Unlisted equity investments are comprised of: investments in private equity funds, which are valued at the proportion of the Group's holding of the net asset value reported by the investment vehicle .and are based on several unobservable inputs including market multiples and cash flow forecasts ; and unquoted equity shares in a strategic investment..

Key differences between the valuation of assets under Solvency II compared to IFRS

The Group applies a value of zero to goodwill for Solvency II and measures it at cost less any provision for impairment in the IFRS financial statements. For intangible assets other than goodwill, a value of zero is assigned under Solvency II for the Group and UKI, because it is not possible to sell other intangible assets separately or demonstrate that there is a market value for the same or similar assets. In the IFRS financial statements these assets are carried at cost less accumulated amortisation and any provision for impairment.

No acquisition costs are capitalised on either the IFRS or Solvency II balance sheet. Insurance and other receivables in the Group and UKI financial statements primarily consist of future cash flows due from policyholders which are not yet due and are reflected as an asset within Solvency II technical provisions. Cash flows from policyholders which are due or overdue are reflected as Solvency II receivables.

The Group, UKI and CIC adopted IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' on a fully retrospective basis from 1 January 2023. This resulted in a significant change in the accounting, presentation and disclosure of the Group's IFRS financial results. The basis of recognising assets and liabilities under Solvency II has not changed.

D. VALUATION FOR SOLVENCY PURPOSES continued

The table below and those on pages 45 and 46 summarise the Group's, UKI's and CIC's Solvency II balance sheet in column (d) and compares the assets and liabilities as reported in the respective IFRS financial statements in column (a). Reclassifications required to align the respective IFRS financial statements to the prescribed format of the Solvency II balance sheet QRTs are given in column (b).

Group Balance Sheet – IFRS and SII

As at December 2023 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Goodwill	15	208.5		208.5		**–**	(208.5)
Other intangible assets	15	610.1		610.1		**–**	(610.1)
Deferred tax assets	11	56.5		56.5	D.1.1	**87.4**	30.9
Pension benefit surplus	23	1.3		1.3	D.1.2	**1.3**	—
Property plant & equipment held for own use	16,17	187.7	13.9	201.6	D.1.3	**145.7**	(55.9)
Property (other than own use)	18	277.1		277.1	D.1.4	**277.1**	—
Financial investments		**3,355.8**	**1,624.2**	**4,980.0**		**4,974.8**	**(5.2)**
Equities	24	19.7		19.7	D.1.5	**19.6**	(0.1)
Government bonds	24	706.4		706.4	D.1.6	**706.4**	—
Corporate bonds[1]	24	2,597.2	5.1	2,602.3	D.1.7	**2,597.2**	(5.1)
Collateralised securities[1]		5.1	(5.1)	—		**–**	—
Collective investments undertakings[2]		—	1,624.2	1,624.2	D.1.8	**1,624.2**	—
Derivatives	22	27.4		27.4	D.1.9	**27.4**	—
Loans and mortgages	24	363.2		363.2	D.1.10	**362.3**	(0.9)
Reinsurance recoverables[3]	20	1,351.4	(182.5)	1,168.9		**846.2**	(322.7)
Receivables		**197.3**	**289.0**	**486.3**		**486.3**	**–**
Insurance and intermediaries[4]		10.9	47.2	58.1	D.1.11	**58.1**	—
Reinsurance receivables[3]		—	233.0	233.0	D.1.11	**233.0**	—
Trade, not insurance		186.4	8.8	195.2	D.1.11	**195.2**	—
Cash and cash equivalents[2]	25	1,772.2	(1,624.2)	148.0	D.1.12	**148.0**	—
Assets held for sale[5]	26	13.9	(13.9)	—	D.1.13	—	–
Other assets		**22.2**	**24.0**	**46.2**		**47.1**	**0.9**
Own shares[6]		—	24.0	24.0		**24.9**	0.9
Other assets		22.2		22.2	D.1.14	**22.2**	—
Total assets		**8,417.2**	**130.5**	**8,547.7**		**7,376.2**	**(1,171.5)**
Liabilities							
Technical provisions[4]	20	5,355.4	(18.3)	5,337.1	D.2	**4,542.2**	(794.9)
Provisions other than technical provisions4		30.8	65.0	95.8	D.3.1	**95.8**	—
Deferred tax liabilities		—		—	D.3.2	**–**	—
Derivatives	22	15.4		15.4	D.3.3	**15.4**	—
Debts owed to credit institutions	25	82.4		82.4	D.3.4	**82.4**	—
Financial liabilities other than debts owed to credit institutions	34	106.1		106.1	D.3.5	**106.1**	—
Insurance & intermediaries payables[4]		0.7		0.7	D.3.6	**0.7**	—
Reinsurance payables[3]		—	50.5	50.5	D.3.6	**50.5**	—
Payables (trade, not insurance)[4,7]		162.9	10.1	173.0		**173.0**	—
Subordinated liabilities[7]	30	258.8	(0.8)	258.0	D.3.7	**217.5**	(40.5)
Total liabilities		**6,012.5**	**106.5**	**6,119.0**		**5,283.6**	**(835.4)**
Excess of assets over liabilities		**2,404.7**	**24.0**	**2,428.7**		**2,092.6**	**(336.1)**

Notes for reclassifications in column (b):

1. Reclassification of £5.1 million to corporate bonds from collateralised securities at 31 December 2023.
2. Reclassification of £1,624.2 million from cash and cash equivalents to collective investments undertakings as at 31 December 2023.
3. Reclassification into reinsurance recoverables of £182.5 million from reinsurance payables of £50.5 million and insurance receivables of £233.0 million as at 31 December 2023.
4. Reclassification of £47.2 million insurance and intermediaries receivables, £8.8 million of trade receivables, £65 million, of other provisions and £9.3 million of payables (trade, not insurance) into technical provisions as at 31 December 2023.
5. Reclassification of assets held for sale of £13.9 million into property, plant & equipment held for own use.
6. Own shares held at 31 December 2023 of £24.0 million are held within equity on the IFRS balance sheet and have been reclassified from excess of assets over liabilities to own shares.
7. Reclassification of accrued interest of £0.8 million from subordinated liabilities to payables (trade, not insurance) as at 31 December 2023.

UKI Balance Sheet – IFRS and SII

As at December 2023 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Other intangible assets	13	1.9		1.9		–	(1.9)
Deferred tax assets	11	62.0		62.0		–	(62.0)
Participations		11.5		11.5	D.15	**13.5**	2.0
Property plant & equipment held for own use	14	55.1	–	55.1	D.1.3	**55.1**	—
Property (other than own use)	15	277.1		277.1	D.1.4	**277.1**	—
Financial investments	20	**3,336.1**	**1,437.5**	**4,773.6**		**4,768.5**	**(5.1)**
Government bonds		706.4		706.4	D.1.6	**706.4**	—
Corporate bonds[1]		2,597.2	5.1	2,602.3	D.1.7	**2,597.2**	(5.1)
Collateralised securities[1]		5.1	(5.1)	—		–	—
Collective investments undertakings[2]		—	1,437.5	1,437.5	D.1.8	**1,437.5**	—
Derivatives	19	27.4		27.4	D.1.9	**27.4**	—
Loans and mortgages	20	362.8		362.8	D.1.10	**361.9**	(0.9)
Reinsurance recoverables[3]	17	1,330.2	(182.1)	1,148.1		**820.3**	(327.8)
Receivables		**161.7**	**288.6**	**450.3**		**450.3**	**–**
Insurance and intermediaries[4]		10.9	47.2	58.1	D.1.11	**58.1**	—
Reinsurance receivables[3]		—	232.6	232.6	D.1.11	**232.6**	—
Trade, not insurance[4]		150.8	8.8	159.6	D.1.11	**159.6**	—
Cash and cash equivalents[2]		1,573.6	(1,437.5)	136.1	D.1.12	**136.1**	—
Total assets		**7,172.0**	**106.5**	**7,278.5**		**6,882.8**	**(395.7)**
Liabilities							
Technical provisions[4]	17	5,364.0	(19.7)	5,344.3	D.2	**4,641.6**	(702.7)
Provisions other than technical provisions[4]		—	65.0	65.0	D.3.1	**65.0**	—
Deferred tax liabilities		—		—		**29.7**	29.7
Derivatives	19	15.1		15.1	D.3.3	**15.1**	—
Debts owed to credit institutions		72.1		72.1	D.3.4	**72.1**	—
Financial liabilities other than debts owed to credit institutions[5]		63.5	36.5	100.0	D.3.5	**100.0**	—
Insurance & intermediaries payables		0.4		0.4	D.3.6	**0.4**	—
Reinsurance payables[3]		—	50.5	50.5	D.3.6	**50.5**	—
Payables (trade, not insurance)[4,5]		55.0	(25.8)	29.2		**29.2**	—
Total liabilities		**5,570.1**	**106.5**	**5,676.6**		**5,003.5**	**(673.1)**
Excess of assets over liabilities		**1,601.9**	**–**	**1,601.9**		**1,879.3**	**277.4**

Notes for reclassifications in column (b):

1. Reclassification of £5.1million to corporate bonds from collateralised securities as at 31 December 2023.
2. Reclassification of £1,437.5 million from cash and cash equivalents to collective investments undertakings as at 31 December 2023.
3. Reclassification of £232.6 million of reinsurance receivables and £50.5 million and reinsurance payables from reinsurance recoverables as at 31 December 2023.
4. Reclassification of £47.2 million insurance and intermediaries receivables, £8.8 million of trade receivables, £65.0 million, of other provisions and £10.7 million of payables (trade, not insurance) into technical provisions as at 31 December 2023.
5. Reclassification of £36.5 million from trade payables to financial liabilities.

D. VALUATION FOR SOLVENCY PURPOSES continued

CIC Balance Sheet – IFRS and SII

As at December 2023 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Deferred tax assets		—		—		**0.3**	0.3
Collective investments undertakings[1]		—	19.6	19.6	D.1.8	**19.6**	—
Reinsurance recoverables[2]	9	23.6	(0.5)	23.1		**28.7**	5.6
Receivables		**0.1**	**0.5**	**0.6**		**0.6**	**–**
Reinsurance receivables[2]		0.1	0.5	0.6		0.6	—
Trade, not insurance		—		—		**–**	—
Cash and cash equivalents[1]	10	19.6	(19.6)	—	D.1.12	**–**	—
Total assets		**43.3**	**–**	**43.3**		**49.2**	**5.9**
Liabilities							
Technical provisions	9	28.2		28.2	D.2	**34.9**	6.7
Financial liabilities other than debts owed to credit institutions	12	0.8		0.8		**0.8**	—
Payables (trade, not insurance)		—		—		**–**	—
Total liabilities		**29.0**		**29.0**		**35.7**	**6.7**
Excess of assets over liabilities		**14.3**		**14.3**		**13.5**	**(0.8)**

Note for reclassifications in column (b):

1. Reclassification of £19.6 million from cash and cash equivalents to collective investments undertakings as at 31 December 2023.
2. Reclassification of £0.5 million of reinsurance receivables from reinsurance recoverables.

D.1.1 Deferred tax assets

For Group and UKI the Solvency II adjustments to the balance sheet result in an increased deferred tax asset. Deferred tax assets are valued at fair value.

D.1.2 Retirement benefit obligation

The Group operated a small defined benefit pension scheme with a balance sheet asset value of £1.3 million as at 31 December 2023, which was closed in 2003. The scheme assets and liabilities are measured at fair value. More detail can be found in the Group's Annual Report & Accounts 2023 in note 23 'Retirement benefit obligations' which starts on page 235.

D.1.3 Property, plant and equipment held for own use

In the Solvency II balance sheets, owned property is valued at fair value, based on valuations provided by independent registered valuers using assumptions and methodology that are consistent with investment property. Property, plant and equipment is valued at fair value only if an external market exists and a price verified by an independent valuer can be obtained, which results in many smaller items being valued at zero. The IFRS financial statements value property, plant and equipment at historic cost less depreciation.

Leased assets, termed right-of-use assets ("**ROU**"), are included in the Solvency II balance sheet as part of property, plant and equipment held for own use. Under IFRS, ROU assets are initially measured based on the present value of lease payments, plus initial direct costs less any incentives received using the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily available. In the Solvency II balance sheet, this valuation is not considered to differ materially from the economic market value.

Properties classified as assets held for sale in the IFRS financial statements are valued on the same basis for Solvency II and included within property, plant and equipment held for own use in the Group Solvency II balance sheet.

D.1.4 Investment property (other than for own use)

Property is stated at fair value in the Solvency II balance sheets and IFRS financial statements based on valuations by independent registered valuers, using consistent assumptions and methodology (see also D.4).

D.1.5 Equities

The balance in equities relates to listed equity investments valued at published prices an unquoted strategic investment and insurtech-focused equity funds which are valued based on external valuation reports received from a third-party fund manager.

D.1.6 Government bonds

Government bonds are valued at fair value in the Solvency II balance sheets and IFRS financial statements. These are based primarily in whole or in part by reference to published quotes in an active market; the value for Group and UKI is £706.4 million as at 31 December 2023. The Group and UKI have £14.0 million, as at 31 December 2023, of government bonds that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

D.1.7 Corporate bonds

Corporate bonds in the Solvency II balance sheets are held at fair value. In the IFRS financial statements for Group and UKI they are also held at fair value with the exception of a small portfolio with a carrying value as at 31 December 2023 of £18.9 million (fair value: £18.9 million) classified as debt securities held at amortised cost. The fair value for Solvency II is calculated using valuation techniques that are based on observable current market transactions and model inputs for recent transactions or observable market data.

D.1.8 Collective investments undertakings

Collective investment schemes are measured at fair value in the Solvency II balance sheets and the IFRS financial statements. They consist primarily of money market funds and are valued by reference to published quotes in an active market.

D.1.9 Derivatives

Derivatives are carried at fair value in both the Solvency II balance sheets and IFRS financial statements, using the valuation technique described on page 42.

D.1.10 Loans

Under IFRS loans are valued at amortised cost. The Solvency II fair value is derived using a valuation based on a risk-adjusted discounted cash flow model. When determining the risk-adjusted discount rate, inputs for the relevant base rate, average trading spread of the overall market or sector and the credit risk specific to the loan are used.

D.1.11 Insurance and other receivables

Insurance and other receivables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

D.1.12 Cash and cash equivalents

Cash and cash equivalents are valued at fair value in the Solvency II balance sheet and amortised cost in the IFRS financial statements, which is materially consistent with fair value. They comprise cash in hand and on demand deposits with banks, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

D.1.13 Assets held for sale

Assets held for sale on the Group IFRS balance sheet of £13.9 million as at 31 December 2023 are included in the Group Solvency II balance sheet within property, plant and equipment held for own use. They are valued at fair value under both IFRS and Solvency II.

D.1.14 Other assets

Other assets on the Solvency II balance sheets are valued at fair value.

D.1.15 Investment in subsidiaries

In the Solvency II balance sheet of UKI, its subsidiary CIC is valued using an adjusted equity method that applies Articles 75 to 86 of the Solvency II Directive. The investment in subsidiary is included within participations.

D.2 Technical provisions

Group – Net technical provisions

As at 31 December 2023	Net best estimates £m	Risk Margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,206.3	61.8	**2,268.1**
Other motor insurance	(56.9)	10.5	**(46.4)**
Fire and other damage to property insurance	769.5	27.5	**797.0**
General liability insurance	98.8	7.5	**106.3**
Other non-life lines of business	185.9	1.8	**187.7**
	3,203.6	**109.1**	**3,312.7**
Life lines of business			
Annuities from non-life	345.7	37.6	**383.3**
Total lines of business	**3,549.3**	**146.7**	**3,696.0**

UKI – Net technical provisions

As at 31 December 2023	Net best estimates £m	Risk Margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,206.3	61.8	**2,268.1**
Other motor insurance	74.6	10.5	**85.1**
Fire and other damage to property insurance	769.5	27.5	**797.0**
General liability insurance	98.8	7.5	**106.3**
Other non-life lines of business	185.9	1.8	**187.7**
	3,335.1	**109.1**	**3,444.2**
Life lines of business			
Annuities from non-life	339.6	37.5	**377.1**
Total lines of business	**3,674.7**	**146.6**	**3,821.3**

D. VALUATION FOR SOLVENCY PURPOSES continued

CIC – Net technical provisions

As at 31 December 2023	Net best estimates £m	Risk Margin £m	Total net technical provisions £m
Life lines of business			
Annuities from non-life	6.1	0.1	**6.2**
Total lines of business	**6.1**	**0.1**	**6.2**

Uncertainty associated with technical provisions

Insurance is inherently uncertain with respect to the amount and timing of future cash flows, requiring the use of judgement in estimating these cash flows. Reserving risk is a significant risk to the Group and consists predominantly of bodily injury claims from the Motor business. Some of the factors that are considered when assessing the level of technical provisions include the class of business, timeliness of notification of claims, validity of claims made against a policy and validity of the amount of the claim. At any time there is a range of possible outcomes at which the technical provisions could ultimately settle and, as time passes, the uncertainty surrounding likely claims settlement for past accident periods reduces. The uncertainty is greater for bodily injury claims due to the time it takes for these claims to settle. This is particularly true for periodic payment orders awarded to settle some of the large bodily injury claims, in which annually indexed payments are made over the lifetime of the injured party. In addition, higher inflation has been evident in 2022 and 2023 and there is uncertainty about when inflation is expected to return to normal levels. This affects both property damage and bodily injury claims.
Future management actions are allowed for in future reinsurance premium expenses. Reinsurance in place for the Group is considered to be renewed on similar terms (unless expected to be materially different) where premium exposure continues beyond the term of current treaties.

Uncertainty with respect to policyholder behaviour is considered within the calculations for bound but not incepted business. Policy data information for new and renewal business is considered by product and business category.

Differences in valuation methodologies

The differences in the valuation of claims provisions best estimates from IFRS17 reporting to a Solvency II basis break down into a number of discrete adjustments to the net IFRS17 insurance liabilities comprising claims reserves and other technical provisions. The net IFRS17 insurance liabilities include the liability for remaining coverage per the IFRS financial statements. These differ in materiality depending on the nature of the cash flows associated with each line of business.

For the claims provisions, differences to IFRS 17 are as follows:

- explicit allowances are made for additional expenses other than claims handling, such as investment management expenses on the earned claims reserves and profit share payments due on partnership arrangements;
- all cash flows are discounted for Solvency II purposes using the risk-free yield curve provided by the Prudential Regulation Authority with volatility adjustment as appropriate. The discount benefit is different under IFRS 17 reporting where the discounting curve is based on the risk-free yield curve plus illiquidity premia calculated by the Group.

For premium provisions/liability for remaining coverage, under Solvency II the calculation of premium provisions allows for all future cash flows relating to unearned obligations. This differs from the concept of the liability for remaining coverage in IFRS 17 where the premium allocation approach is applied, in which there is a provision for unearned premium, insurance acquisition cash flows and loss component, if required.

For the risk margin / risk adjustment, under Solvency II an industry-wide prescribed method for calculating the risk margin above the best estimate technical provisions is applied as opposed to the IFRS 17 risk adjustment, which is calculated using a Group-specific methodology.

Movement from IFRS net insurance liabilities to Solvency II net technical provisions

Group

As at 31 December 2023	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,336.8	(68.7)	**2,268.1**
Other motor insurance	133.9	(180.3)	**(46.4)**
Fire and other damage to property insurance	823.5	(26.5)	**797.0**
General liability insurance	242.6	(136.3)	**106.3**
Other non-life lines of business	190.2	(2.5)	**187.7**
	3,727.0	**(414.3)**	**3,312.7**
Life lines of business			
Annuities from non-life[1]	277.0	106.3	**383.3**
Total	**4,004.0**	**(308.0)**	**3,696.0**

UKI

As at 31 December 2023	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,368.6	(100.5)	**2,268.1**
Other motor insurance	133.9	(48.8)	**85.1**
Fire and other damage to property insurance	823.7	(26.7)	**797.0**
General liability insurance	244.8	(138.5)	**106.3**
Other non-life lines of business	190.4	(2.7)	**187.7**
	3,761.4	**(317.2)**	**3,444.2**
Life lines of business			
Annuities from non-life[1]	272.4	104.7	**377.1**
Total	**4,033.8**	**(212.5)**	**3,821.3**

CIC

As at 31 December 2023	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Life lines of business			
Annuities from non-life[1]	4.6	1.6	**6.2**
Total	**4.6**	**1.6**	**6.2**

Note :

1 The IFRS net insurance liabilities above for annuities from non-life are different from the net approved PPO claims provision in the corresponding IFRS financial statements, which excludes an allocation of reinsurance bad debt but does include both lump sum payments and annuities.

Differences in the valuation between UKI and CIC

Within the Group's Solvency II technical provisions, the valuation for risk margin differs for UKI and CIC. The risk margin for UKI is taken from the internal model whilst the risk margin for CIC is based on a standard formula calculation. No additional diversification is allowed for between the entities in the Group level risk margin.

Volatility adjustment

The volatility-adjusted risk-free discount rate is used to discount reserve cash flows for the motor liability, general liability and non-life annuity classes of business. This includes application to reserves held for PPO claims. The part of the discounting credit relating to the volatility adjustment amount net of reinsurance is in the respective balance sheets of the Group, UKI and CIC at 31 December 2023.

Recoverables from reinsurance contracts and special purpose vehicles

The Group has a range of reinsurance protection types which include property catastrophe, motor risk excess of loss, commercial property risk excess of loss, commercial liability risk excess of loss and smaller programmes to protect against travel, subsidence and creditor claims. Facultative cover has been purchased on selected commercial risks, mainly property. Motor risk excess of loss in past years has been on a risk attaching basis.

The Group allows for future reinsurance expenditure as an increase to the technical provisions on a contractually bound basis.

There are currently no special purpose vehicles in place for the Group's reinsurance.

Changes in assumptions relating to the calculation of technical provisions

There have been no key changes in assumptions relating to the calculation of technical provisions since last year.

The following represent parameter updates made to the calculation of technical provisions over the same period. For these parameter updates, the underlying methodology remains unchanged.

- the claims ABE, allowance for expenses, allowance for reinsurer counterparty default and cash flow patterns are updated throughout the year for all lines of business to allow for IFRS reserve movements and changes in the data underlying all assumptions;
- the premium provisions, balance sheet items, claims assumptions and expense assumptions are updated through the year;
- both the claims provision and the premium provision assume an Ogden discount rate of minus 0.25% for England and Wales, minus 0.75% for Scotland and minus 1.50% for Northern Ireland;
- the events not in data model has been updated for the latest volatility parameters and scenarios; and
- the risk margin reflects an updated view of the best estimate provisions, as well as model and parameter updates in the internal model.

D.3 Other liabilities

Valuation methodology

The Group values all liabilities at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction. In the Group, UKI and CIC Solvency II balance sheets, no adjustments are made for own credit risk, except for subordinated liabilities. There have been no changes to the bases used for recognition, valuation and estimation of other liabilities during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted.

The tables in D.1 summarise and compare the value of Group, UKI and CIC Solvency II liabilities with those contained in the Group, UKI and CIC IFRS financial statements.

D.3.1 Provisions other than technical provisions

Provisions other than technical provisions are valued in the Solvency II balance sheets and the IFRS financial statements at fair value. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

D.3.2 Derivatives

Derivatives are carried at fair value in the Solvency II balance sheets and IFRS financial statements using the valuation technique described on page 42.

D.3.3 Debts owed to credit institutions

Debts owed to credit institutions comprise bank overdrafts and are measured at amortised cost using the effective interest rate method in the IFRS financial statements. Given the very short-term nature of these balances this is also considered to be a reasonable approximation to fair value for the Solvency II balance sheet.

D.3.4 Financial liabilities other than debts owed to credit institution

These include lease liabilities for corresponding ROU assets. Amounts are valued at the present value of lease payments outstanding over the term of the remaining lease. The discount rate used (i.e. incremental borrowing rate) is the same as that used for valuing corresponding ROU assets. This category also contains some intercompany balances for UKI and CIC.

D.3.5 Insurance and other payables

Insurance and other payables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future payments by a risk-adjusted discount rate. Where the time value of associated payments is not significant, cash flows are not discounted.

D.3.6 Subordinated liabilities

The Group has subordinated guaranteed dated notes in the Solvency II balance sheets held at a fair value which is determined by reference to quoted prices in an active market less the movement in own credit risk since initial recognition. In the IFRS financial statements they are valued at amortised cost.

D.4 Alternative methods of valuation

The majority of the assets and other liabilities included in the Balance Sheet QRTs of the Group, UKI and CIC in sections G.2, G.3 and G.4 respectively are based on quoted market information or observable active market data. Where the quoted market information or observable market data is not available, an alternative method for valuation is used.

The Solvency II valuation methodology hierarchy is different from the IFRS fair value hierarchy but the methodology for valuing assets and other liabilities at fair value is consistent. The assets and other liabilities, that are not valued by reference to published quotes in an active market and would be classified as level 2 or 3 in the Group's IFRS fair value hierarchy, are classified as alternative methods of valuation under Solvency II. The Group only uses alternative valuation methods when a readily observable, external market valuation is not available, or where the relevant market is deemed to be inactive.

Estimation and uncertainty of alternative method of valuation

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but based on independent third-party evidence and internally developed models. Valuation uncertainty arises from variation in the expected range of the key inputs into the models, judgements relating to model inputs, and reliance on third party valuation standards. Where an alternative valuation method is used the variation to fair value is immaterial.

The material assets and other liabilities, disclosed in the Balance Sheet QRTs in sections G.2, G.3 and G.4, that have alternative methods of valuation methods applied are as follows:

Investment property and property for own use

Property is stated at fair value in the Solvency II balance sheets. Where quoted market prices are not available, valuation techniques are used to value these properties. The fair value is determined using a methodology based on recent market transactions for similar properties, adjusted for the specific characteristics of each property within the portfolio. The fair values are based on valuations by independent registered valuers and the techniques used include some unobservable inputs.

Right of use assets and lease liabilities

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.

Participations (UKI only)

Participations of £13.5 million at 31 December 2023 (2022: £13.3 million) are valued using an adjusted equity method, which takes a share of the excess of assets over liabilities of the CIC subsidiary. This method is used because a quoted market price from an active market in the equity of the subsidiary is not available.

Government and corporate bonds

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.

Loans and mortgages

The Solvency II fair value is derived using a valuation based on a risk-adjusted discounted cash flow model. When determining the risk-adjusted discount rate, inputs for the relevant base rate, average trading spread of the overall market or sector and the credit risk specific to the loan are used.

Derivative asset and liabilities

Fair value for derivatives is 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. Valuation models use inputs for contractual terms and the specific risks inherent in the instrument, market prices, credit curves, yield curves, measure of volatility and correlations of such inputs.

Equity investments

Equity investments are stated at fair value in the Solvency II balance sheet based on available prices for quoted investments, the most recent share issue prices for unquoted investments and external valuations from a third-party fund manager for unlisted equity funds.

Subordinated liabilities

The valuation in the Solvency II balance sheet is at fair value based on reference to quoted market price less the movement in own credit risk since initial recognition. The discounted cash flow uses a discount rate that takes into account the specific characteristics of the subordinated debt adjusted for market conditions. An adjustment is made to the calculated fair value to remove the movement in the Group's own credit risk since initial recognition.

D.5 Any other information

CIC has a 100% quota share reinsurance treaty with UKI to recover insurance liabilities that are not satisfied by third-party reinsurers. As at 31 December 2023, the amount of the reinsurance recoverable from UKI was £1.5 million.

Details on the adoption of new and revised accounting standards, including the transition to IFRS 17 and IFRS 9, can be found in Note 1 'Accounting policies' and Note 40 'First time adoption of new accounting standards' within the 'Notes to the financial statements' starting on pages 179 and 250 respectively of the Group's Annual Report at www.directlinegroup.co.uk/en/investors

SECTION E: CAPITAL MANAGEMENT

In this section:

E. CAPITAL MANAGEMENT continued

E.1 Own funds

E.1.1 Objective, policies and processes for managing own funds

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 would intend 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. For UKI and CIC, their individual boards have approved a minimum threshold of 128% of their respective solvency capital requirements.

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 Group may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

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

The Group seeks to maintain sufficient economic capital consistent with its strategic aim of maintaining a credit rating in the 'A' range.

The policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management minimum standard, which includes the following key controls:

Capital forecasting

The Group's strategic plan includes a capital plan that forecasts the solvency capital requirement and coverage ratios for the Group, UKI and CIC.

Adverse capital movement

A regular review of the capital adequacy of each Group undertaking is undertaken to ensure no deterioration below the solvency capital requirement or agreed risk appetite ranges, including review of the forecast capital position and the quality of capital within own funds.

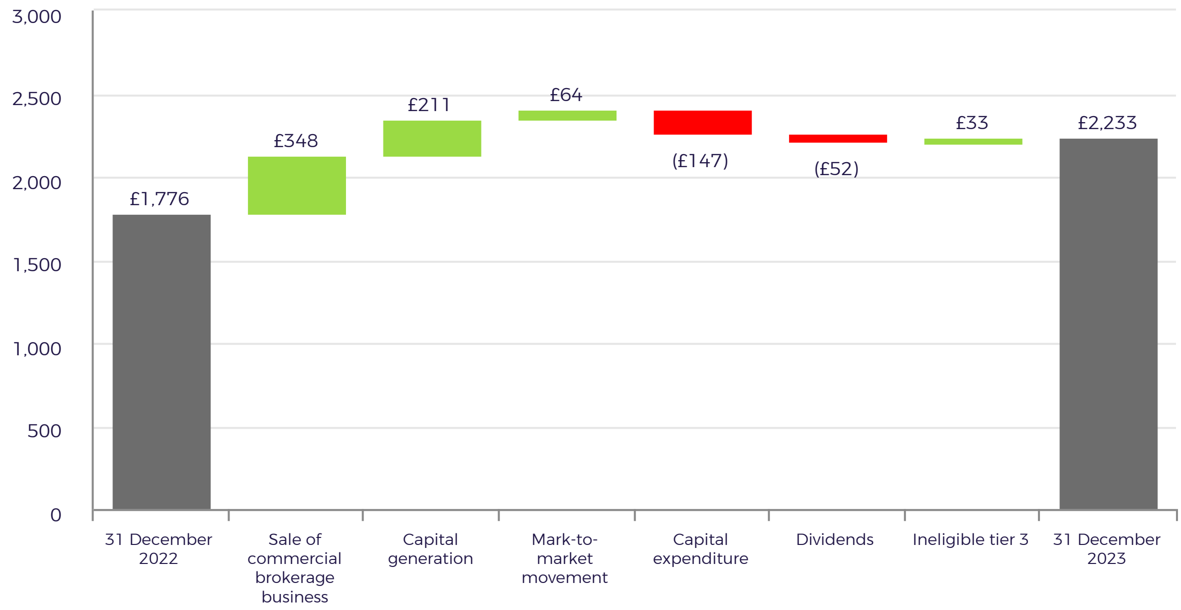
Management of dividend governance

Dividends paid by all Group undertakings are considered and approved by the responsible Board. The Company, UKI and CIC all have the right to cancel (or defer) their own dividend payments or other distributions after declaration if the undertakings cease to hold capital resources equal to or in excess of their solvency capital requirement.

There have been no material changes to the objectives, policies and processes for managing own funds over the reporting period.

E. CAPITAL MANAGEMENT continued

Movement in Group eligible own funds during 2023 (£ million)



Note:

1. Mark-to-market movements represent fair value adjustments on financial investments held at fair value through profit and loss.under IFRS, fair value adjustments on financial investments held at amortised cost under IFRS, and fair value adjustments on investment properties, property held for own use, derivatives and yield on technical provisions.

During 2023, the Group's eligible own funds increased from £1,776 million to £2,233 million. Eligible Tier 1 capital after foreseeable distributions represents 86% of own funds and 169% of the SCR. Tier 2 capital relates to the Group's £217.5 million subordinated debt with no ineligible Tier 1 capital. The maximum amount of restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

The following table lists total own funds items by tier for the Group, UKI and CIC:

As at 31 December 2023	Group £m	UKI £m	CIC £m
Ordinary Share capital	143.1	580.8	—
Share premium account related to ordinary share capital	—	250.0	—
Reconciliation reserve	1,459.7	1,048.5	13.2
Total Tier 1 unrestricted capital	**1,602.8**	**1,879.3**	**13.2**
Tier 1: restricted Tier 1 debt	325.6	—	—
Total eligible Tier 1 capital	**1,928.4**	**1,879.3**	**13.2**
Tier 2: subordinated liabilities	217.5	—	—
Tier 3: deferred tax assets	87.4	—	0.3
Total eligible own funds[2]	**2,233.3**	**1,879.3**	**13.5**

As at 31 December 2022	Group £m	UKI £m	CIC £m
Ordinary Share capital	143.1	580.8	—
Share premium account related to Ordinary Share capital	—	150.0	—
Reconciliation reserve	923.4	678.9	12.8
Total Tier 1 unrestricted own funds	1,066.5	1,409.7	12.8
Tier 1: restricted Tier 1 debt	318.0	—	—
Less reclassified restricted Tier 1 debt[1]	(51.4)	—	—
Total eligible Tier 1 own funds	1,333.1	1,409.7	12.8
Tier 2: subordinated liabilities	261.5	—	—
Tier 3: deferred tax assets	214.2	80.2	0.2
Ineligible Tier 3 capital	(33.0)	–	–
Total eligible own funds[2]	1,775.8	1,489.9	13.0

Notes:

1. As at 31 December 2023 none of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to tiering restrictions.
2. The difference between own funds for the Group and the total of UKI and CIC relates to own funds of non-regulated entities.

Group

Tier 1 own funds comprise Ordinary Share capital of £143.1 million (2022: £143.1 million) and the reconciliation reserve of £1,459.7 million (2022: £923.4 million). The reconciliation reserve consists of Solvency II excess of assets over liabilities of £2,092.6 million (2022: £1,627.8 million) less the value of own shares held of £24.9 million (2022: £29.2 million), foreseeable capital distributions of £51.9 million (2022: £nil) and other basic own fund items consisting of restricted Tier 3 deferred tax assets of £87.4 million (2022: £181.2 million), Ordinary Share capital of £143.1 million (2022: £143.1 million) and Tier 1 notes of £325.6 million (2022: £318.0 million) of which none is reclassified as Tier 2 (2022: £51.4 million).

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 its business growth.

On 7 December 2017, the Group has issued Tier 1 notes to mitigate the risk of a single refinancing date. In addition, under the Solvency II eligibility restrictions the Group previously had limited options to raise additional subordinated debt (Tier 2) capital to recover solvency. As a result of raising the Tier 1 notes and repaying half of the Tier 2 capital the Group has the ability to raise further Tier 2 capital should this be required.

On 7 December 2017, the Group issued £350.0 million of 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, the 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 Group has the option to cancel the coupon payment. Cancellation becomes mandatory if: the Solvency condition 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. Proceeds of this issuance were primarily used to fund the repurchase of £250 million subordinated guaranteed dated notes.

On 5 June 2020, the Group issued £260 million of subordinated Tier 2 notes at a fixed rate of 4.0%. The notes have a redemption date of 5 June 2032 and may be redeemed at the option of the Group commencing on 5 December 2031 until the maturity date. The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right. The notes are unsecured, and subordinated obligations of the Group and rank pari passu 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.

UKI

Tier 1 own funds comprise Ordinary Share capital of £580.8 million (2022: £580.8 million), share premium of £250.0 million (2022: £150.0 million) and the reconciliation reserve of £1,048.5 million (2022: £678.9 million). The reconciliation reserve consists of Solvency II excess of assets over liabilities of £1,879.3 million (2022: £1,929.5 million), less foreseeable dividends in the year of £nil (2022:£90.0 million), Ordinary Share capital of £580.8 million (2022: £580.8 million and share premium of £250.0 million (2022: £150.0 million). There is no deferred tax asset (2022: £29.3 million).

The subordinated loan with a nominal value of £250 million with a redemption date of 27 April 2042 was repaid in full on 27 April 2022.

CIC

Tier 1 own funds comprise Ordinary Share capital of £100 (2022: £100) and the reconciliation reserve of £13.2 million (2022: £13.1 million). The reconciliation reserve consists of Solvency II excess of assets over liabilities of £13.5 million (2022: £13,1 million) less other basic own fund items consisting of restricted Tier 3 deferred tax assets of £0.3 million (2022: £nil) and Ordinary Share capital of £100 (2022: £100).

Eligible own funds by tier to cover the solvency capital requirement and minimum capital requirement

Group

The Group's SCR as at 31 December 2023 was £1,133.0 million. There is an eligibility limit that the sum of Tier 2 and Tier 3 capital shall not exceed 50% of the SCR - no restriction on available own funds to meet the SCR was applicable to the Group at 31 December 2023 (2022: a restriction of £33.0 million). Total eligible own funds to meet the SCR were £2,233.3 million, consisting of Tier 1 – unrestricted of £1,602.8 million, eligible Tier 1 – restricted of £325.6 million, Tier 2 of £217.5 million and Tier 3 of £87.4 million. The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and of Tier 3 alone is less than 15%. The Group has no Tier 2 plus Tier 3 ineligible own funds at 31 December 2023 (2022: £33.0 million).

The Group's MCR as at 31 December 2023 was £500.0 million; Tier 3 own funds are not eligible to cover the MCR. The limit that Tier 2 own funds shall not exceed 20% of the MCR is the only other restriction of eligible own funds to meet the MCR. The total eligible own funds to meet the MCR were £2,028.5 million, consisting of unrestricted Tier 1 of £1,602.8 million, eligible restricted Tier 1 of £325.6 million and restricted Tier 2 of £100.0 million. The restriction that Tier 1 – restricted own funds should not exceed 20% of total Tier 1 own funds when satisfying the requirement that eligible Tier 1 items shall be at least 80% of the MCR was not applicable to the Group.

UKI

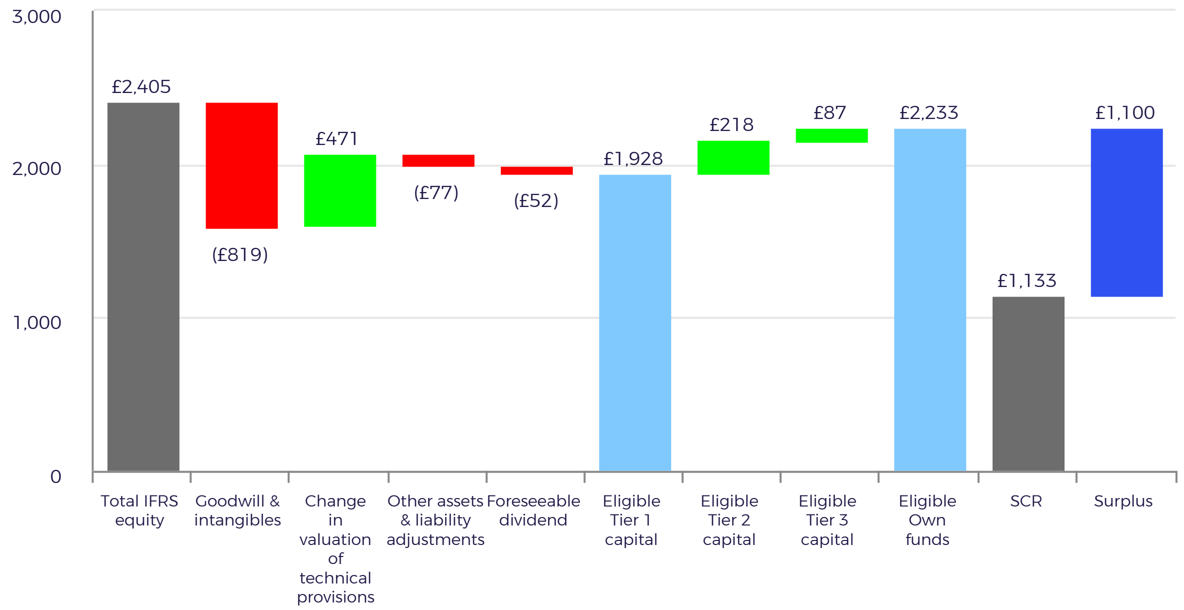
There were no restrictions on UKI's own funds to meets its SCR as at 31 December 2023 of £1,103.2 million (2022: £1,174.2 million).

The UKI MCR as at 31 December 2023 was £496.5 million; Tier 3 own funds are not eligible to cover the MCR. The restriction that limits Tier 2 items to 20% of the MCR was the only restriction. Total eligible own funds to meet the MCR were £1,879.3 million, consisting of unrestricted Tier 1 of £1,879.3 million..

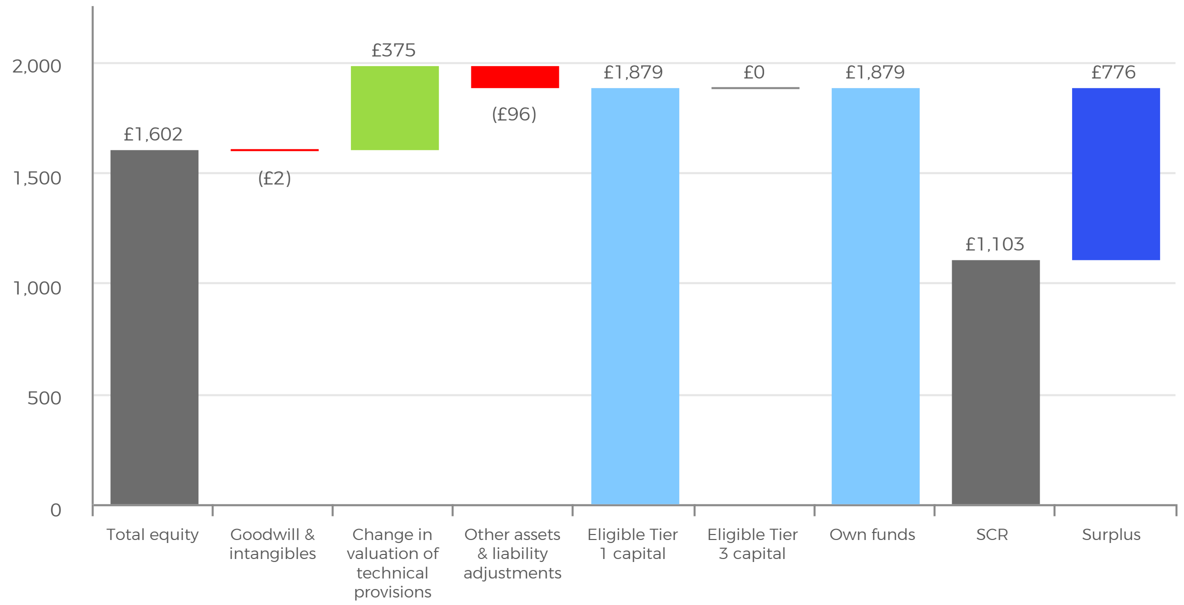
CIC

As at 31 December 2023, the CIC SCR was £1.7 million and the MCR was £3.5 million. CIC remains within its quantitative eligibility limits for tiers 1, 2 or 3.

Reconciliation of Group equity in the IFRS financial statements to Solvency II eligible own funds as at 31 December 2023 (millions)



Reconciliation of UKI equity in the IFRS financial statements to Solvency II eligible own funds as at 31 December 2023 (millions).



Reconciliation of IFRS equity and Solvency II excess of assets over liabilities (eligible Tier 1)

As at 31 December 2023	Group £m	UKI £m	CIC £m
Total equity	2,404.7	1,601.9	14.3
Goodwill and intangible assets	(818.6)	(1.9)	—
Change in valuation of technical provisions	471.8	374.6	(1.1)
Other asset and liability adjustments	(77.5)	(96.0)	0.3
Foreseeable capital distributions	(51.9)	—	—
Excess of assets over liabilities (eligible Tier 1)	**1,928.5**	**1,878.6**	**13.5**

Neither UKI nor CIC had any items deducted from own funds or any restrictions that would affect the availability and transferability of own funds within the undertakings.

At the Group level there were no anticipated restrictions on the fungibility of own funds within Group entities except for the deferred tax asset which is held in DLIS and no items of own funds were dedicated to absorb specific losses. There were no restrictions on the transferability of own funds between Group entities.

E.2 Solvency capital requirement and minimum capital requirement (unaudited)

Solvency capital requirement and minimum capital requirement at the end of the reporting period

Group partial internal model solvency capital requirement

As at 31 December	2023 £m	2022 £m
SCR for the Group companies excluding UKI and its subsidiary (CIC), using integration technique 1	**29.8**	33.4
SCR for UKI using the Internal Economic Capital Model	**1,103.2**	1,174.2
Consolidated Group SCR	**1,133.0**	1,207.6

The Group received PRA approval to use a partial internal model for the calculation of its Group and solo SCRs from 1 July 2016. The SCR is not subject to supervisory assessment.

The integration technique to be used to integrate the partial internal model into the SCR standard formula is integration technique 1 as set out in Annex XVIII of the Commission Delegated Regulation (EU) 2015/35.

The undertakings included in the scope of the model for the calculation of the Group SCR are:

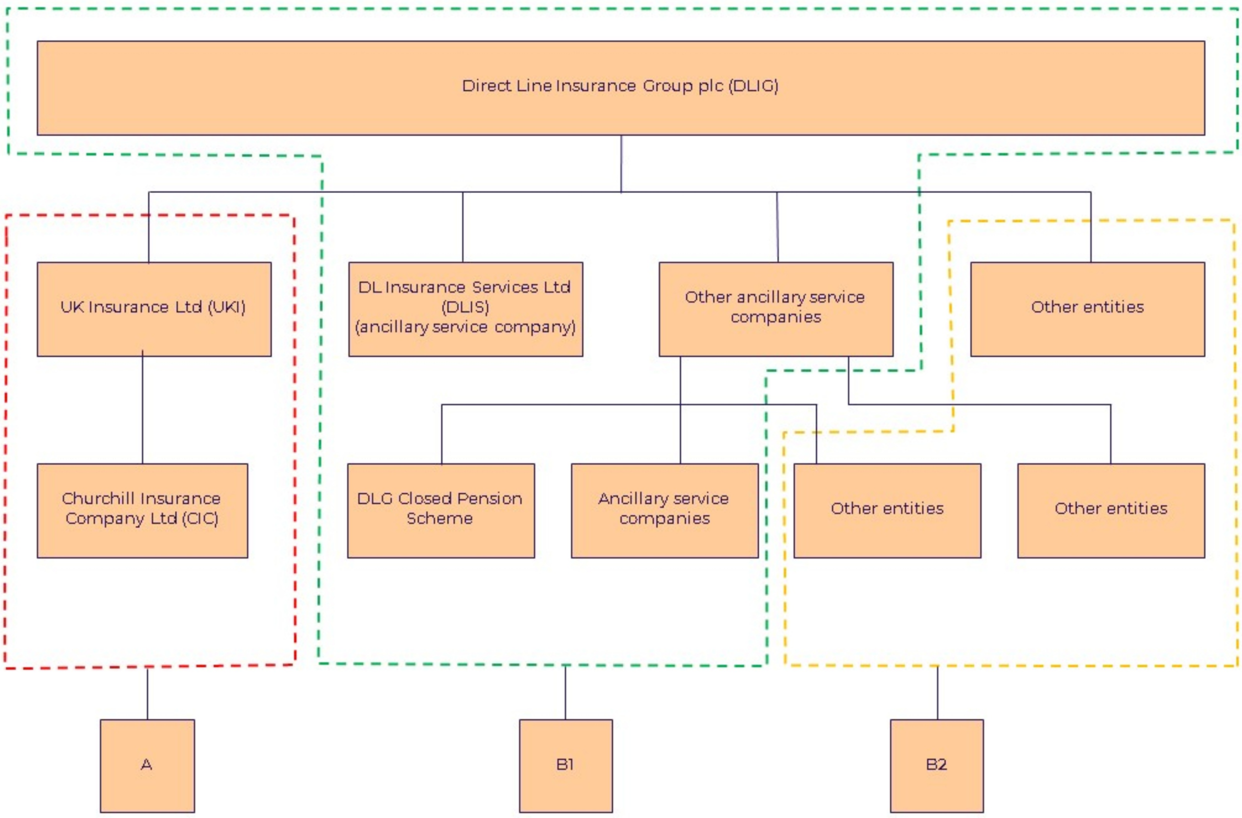
- Direct Line Insurance Group plc
- U K Insurance Limited
- Churchill Insurance Company Limited

The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula of the Group holding company, excluding UKI, is calculated partly on a consolidated basis and partly on the basis of a standard formula equity risk shock for strategic participations in respect of certain entities.

The Group SCR is calculated by adding together the SCR for UKI calculated using the Internal Economic Capital Model (A) and a standard formula SCR for the non-UKI companies in the Group (B1). This standard formula SCR uses a consolidated balance sheet approach, except for certain entities (B2) which are treated as equity investments of the Group. The diagram below illustrates the generic approach. Note this diagram does not represent a structure chart of the Group - the Group structure chart is found on page 9 of this report.

E. CAPITAL MANAGEMENT continued



The solo SCR for UKI includes all risks arising from CIC due to UKI owning 100% of CIC. The solo SCR for CIC is calculated using the standard formula.

The calculation of the solo SCR for CIC and for DLIG (excluding UKI) using the standard formula uses the parameters as referred to in the Solvency II regulations. The Group did not apply for undertaking specific parameters as referred to in Chapter V – Section 12 to be used. Simplified calculations as referred to in Subsection 6 of the Solvency II Delegated Regulation 2015/35 are not used.

There are no significant restrictions to the fungibility and transferability of own funds eligible for covering the Group SCR except for the deferred tax asset which is held in DLIS.

Due to the integration technique adopted, there are no diversification benefits taken between UKI and the Group entities. There are diversification benefits assumed between the Group entities in group B as far as has been allowed for by the standard formula. The contribution of risk from CIC to UKI is based on a CIC standard formula calculation, excluding any inter-company reinsurance provided to CIC from UKI. An uplift is applied to the CIC insurance risk calculation to reflect the limitations of the standard formula in dealing with the risks arising from periodic payment orders.

The Internal Economic Capital Model approach used to calculate the solo SCR for UKI is the same as used to calculate the contribution of UKI to the Group SCR.

Summary of entity solvency capital requirements and minimum capital requirements

As at 31 December 2023	SCR £m	MCR £m
Direct Line Insurance Group plc	**1,133.0**	**500.0**
U K Insurance Limited	**1,103.2**	**496.5**
Churchill Insurance Company Limited	**1.7**	**3.5**

Group solvency capital requirement – further information

As at 31 December	2023 £m	2022 £m
Non-life underwriting risk	–	–
Life underwriting risk	–	–
Health underwriting risk	–	–
Market risk	**27.0**	31.3
Counterparty default risk	**7.6**	6.2
Total – undiversified risk	**34.6**	37.5
Diversification	**(4.8)**	(4.1)
Basic SCR	**29.8**	33.4
Operational risk	–	–
Loss absorbing capacity of deferred taxes	–	–
Other adjustments	–	–
UKI SCR	**1,103.2**	1,174.2
Group SCR	**1,133.0**	1,207.6

Material changes over the year

Changes in the Group SCR are driven in part from changes in the UKI SCR which are discussed below. In respect of the element of the Group SCR attributed to the holding company, the decrease is primarily due to a reduction in investment values.

Group minimum consolidated group SCR – further information

The Group minimum consolidated group SCR has decreased from £524.4 million to £500.0 million over the reporting period due to a reduction in UKI's MCR as discussed below.

UKI solo solvency capital requirement – further information

As at 31 December	2023 £m	2022 £m
Insurance risk	**1,086.8**	1,127.0
Market risk	**171.2**	293.9
Counterparty default risk	**72.6**	65.1
Operational risk	**303.6**	275.6
Risk margin volatility	**28.8**	19.6
Total – undiversified risk	**1,663.0**	1,781.2
Diversification	**(559.8)**	(607.0)
Total – diversified	**1,103.2**	1,174.2
Loss absorbing capacity of deferred taxes	–	–
UKI SCR	**1,103.2**	1,174.2

Material changes over the year

The decrease in insurance risk is due to internal model and exposure updates, primarily reflecting the sale of the Commercial Broker business, which is partially offset by increased insurance risk volatility.Market risk has decreased primarily due to higher investment returns and lower credit spread volatility.

The increase in operational risk reflects a higher scenario impact in relation to Conduct and Compliance, Cyber and Control Environment.

Risk margin volatility has increased reflecting the increased insurance risk volatility.

UKI minimum capital requirement – further information

The UKI MCR has decreased from £520.9 million and is now capped at £496.5 million over the reporting period, reflecting the reduction in the SCR.

CIC solo solvency capital requirement – further information

As at 31 December	2023 £m	2022 £m
Non-life underwriting risk	–	—
Life underwriting risk	**0.2**	0.2
Health underwriting risk	–	—
Market risk	**1.2**	0.8
Counterparty default risk	**0.5**	0.5
Total – undiversified risk	**1.9**	1.5
Diversification	**(0.4)**	(0.4)
Basic SCR	**1.5**	1.1
Operational risk	**0.2**	0.2
CIC SCR[1]	**1.7**	1.3

1. The solvency Capital requirement for CIC is audited. .

Material changes over the year

The increase in the CIC SCR reflects movements in interest rates since 31 December 2022 and exposure movements over the period.

CIC minimum capital requirement – further information

There have been no material movements in the CIC MCR, which has increased from £3.4 million to £3.5 million over the reporting period.

Simplified calculation in the standard formula

No material simplifications have been used to derive the SCR using the standard formula.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement (unaudited)

The duration-based equity risk sub-module is not used in the calculation of the SCR for the Group UKI or CIC.

E.4 Use of the internal model (unaudited)

Capital management

The Internal Economic Capital Model's primary use is to calculate the SCR. The Internal Economic Capital Model is used to assess the impact of capital management decisions and is an input into the Own Risk and Solvency Assessment to support dividend planning and budgeting.

Risk management

The Internal Economic Capital Model is used to quantify risks on the Material Risks Register and is also used to highlight the key risks to the Group. Furthermore, the Internal Economic Capital Model supports the risk appetite setting process and the review of financial forecasts, by providing stressed scenarios to give the Group's Executive Committee a range of possible outcomes.

Reinsurance management

Through the modelling of the base and alternative reinsurance structures, the Internal Economic Capital Model supports catastrophe and motor reinsurance management, by assessing the impact on profitability and capital requirements.

Portfolio management

The Internal Economic Capital Model is used to understand the relative risk associated with different cohorts of the business and is used to advise on capital allocation to business categories. New initiatives and opportunities involve the Internal Economic Capital Model to indicate the impact on the SCR and associated return on equity.

Investment management

The Internal Economic Capital Model is used to assess the risk associated with the current asset mix, the impact of changes to the SCR and asset risk of changes in proposed asset portfolios and as a feed into the analysis of liquidity requirements which in turn impact the strategic investment decisions.

Scope of the internal model

The partial internal model calculates the Group SCR by adding together the SCR for UKI, calculated using the Internal Economic Capital Model, and a standard formula SCR for the non-UKI companies in the Group. This standard formula uses a consolidated balance sheet approach, except for certain entities which are treated as equity investments of the Group. See the diagram on page 58 which illustrates this approach.

The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula for the Group companies (Section E.2), excluding UKI and its subsidiary CIC, is calculated partly on a consolidated basis and partly based on a standard formula equity risk shock for strategic participations in respect of certain entities. The underlying assets and liabilities of entities in group B1 are consolidated before applying the standard formula calculation. This sub-group consists of the Group holding company, ancillary service companies and the Group's closed pension scheme. The latter is not an entity within the Group but exposes it to pension scheme risk through its sponsor DLIS.

The risks included in the notional standard formula of the Group companies (excluding UKI and its subsidiary) are predominantly market risk and counterparty default risk. Market risk arises from the assets held at Group level and those held by the associated Group pension scheme. Counterparty default risk arises mainly from debtor balances and cash holdings.

The scope of the Internal Economic Capital Model is defined in terms of legal entities and risk categories that are represented in the Internal Economic Capital Model SCR. The Internal Economic Capital Model is considered a full internal model for the calculation of the solo UKI SCR as it includes all quantifiable material risks.

The following legal entities are included in the Internal Economic Capital Model SCR:

- U K Insurance Limited
- Churchill Insurance Company Limited

All other legal entities within the Group are excluded from the scope of the Internal Economic Capital Model.

The following risk types are included in the scope of the Internal Economic Capital Model:

- underwriting risk;
- reserving risk;
- catastrophe risk;
- market risk;
- counterparty default risk;
- liquidity risk; and
- operational risk.

The following risk types are not within the scope of the Internal Economic Capital Model, being regarded as non-quantifiable risks:

- strategic risk;
- reputational risk; and
- regulatory risk.

The Internal Economic Capital Model includes an allowance for the loss absorbing capacity of deferred taxes due to the potential for tax carry back. Risks arising due to periodic payment orders are assessed in underwriting risk and reserving risk. Market risk includes the assessment of interest rate risk arising from assets and liabilities. Liquidity risk is considered in the Internal Economic Capital Model but is assessed at zero due to the amount of liquid assets held.

Methods used to calculate the probability distribution forecast and the solvency capital requirement

Internal Economic Capital Model overview

The Internal Economic Capital Model is a full internal model as outlined by Article 112 of the Solvency II Directive. The calculation kernel within the Internal Economic Capital Model is the DLG Insurance Internal Capital Engine.

The DLG Insurance Internal Capital Engine uses stochastic processes and Monte-Carlo simulation methods to investigate the uncertainty in real world financial quantities over time by modelling real world processes as predictable movements onto which a random element is added. This random element represents the level of uncertainty within the process being modelled. Risk is measured by simulating several thousand random outcomes and observing the distribution of the outputs.

The DLG Insurance Internal Capital Engine produces future financial statements as well as a breakdown of the impact on the balance sheet by risk type. This enables the Group to understand the potential real-world impact of a scenario and allows for integration into the risk management system of the Group. The DLG Insurance Internal Capital Engine simulates many possible closing balance sheets and provides a range of possible outcomes from which probabilistic measures can be obtained. This method allows the SCR to be set by measuring the 99.5th value-at-risk of the movement in own funds over a one-year period.

The DLG Insurance Internal Capital Engine is structured around a series of dependent modelling components. Each component models a specific aspect of an insurance company’s operations, for example claims payments or reinsurance recoveries, and may depend on previous components, for example claims depend on a claims inflation component. The components within the DLG Insurance Internal Capital Engine may contribute to one or more of the risk types being assessed.

Internal Economic Capital Model structure

All financial modelling is a simplification of the real world. Within the DLG Insurance Internal Capital Engine this is partly addressed by grouping potential risks into homogenous cohorts rather than modelling each policy, claim or risk individually. The balance between aggregation and individual detail is important and will vary depending on the materiality and complexity of the risk being modelled.

The business structure in the DLG Insurance Internal Capital Engine is split across the following categories: Motor, Home, Rescue and other personal lines, Commercial and run-off business. Within each category there are classes where the risks are different. For example, Home is split into own brands and partnerships due to profit sharing arrangements and Commercial is analysed by risk type (motor, property and liability) and channel (direct and broker),but following the sale of the Broker business, Broker only relates to outstanding Broker reserves.This allows for the model output to be useful and it also makes it more straightforward to source appropriate data.

The biggest risk that the Group faces is uncertainty regarding claims. Within each category, claims are modelled by loss types reflecting the different risks and influences on each type of claims. For example, Motor claims are modelled as attritional third-party property damage, attritional third-party bodily injury (capped), attritional other, large, periodic payment orders and catastrophe claims. The modelling of detailed loss types reflects the materiality, risk characteristics and homogeneity of the underlying risks being considered.

Difference between standard formula and internal model used

There are significant differences in both model structure and parameters when comparing the standard formula and the internal model. The Internal Economic Capital Model has been designed to model business processes whereas the standard formula focuses purely on a silo approach to considering specific risks with an aggregation methodology overlaid on top. The Internal Economic Capital Model is primarily calibrated to UKI data and uses expert judgement from the business, whereas the standard formula is calibrated using industry-based data and expert judgements.

There are significant differences between the Internal Economic Capital Model and standard formula SCR methodologies. The most significant differences are outlined below:

Profit

The Internal Economic Capital Model allows for expected profit over the year. The standard formula model does not, and this can be a significant difference.

Diversification

The correlations within the Internal Economic Capital Model SCR have been based on UKI data and expert judgement from the business. The standard formula SCR uses correlations that have been calibrated to industry-based data and expert judgement. The correlation parameters between risk types in the Internal Economic Capital Model are lower than for the standard formula. In particular, the relationship between insurance risk and market risk is assumed to be lower in the Internal Economic Capital Model than that assumed in the standard formula.

Market risk

The major difference relates to the use of an economic scenario generator by the Internal Economic Capital Model to assess market risk. The assumptions made within the economic scenario generator differ from those made by the standard formula, which primarily considers shocks in specific market variables and then attempts to apply a dependency structure on top. The economic scenario generator considers: the related evolution of economic variables over the year; considers movements in cash flows; and changes in the balance sheet in a year's time. This results in differences between the Internal Economic Capital Model and the standard formula in relation to interest rate risk, property risk and spread risk.

Non-life underwriting risk

The Internal Economic Capital Model one-year reserve volatility is calibrated using historic data while the standard formula uses prescribed rates. The Internal Economic Capital Model SCR also considers the variability of the premium provision as at one year after the valuation date. The standard formula SCR does not consider the risk associated with this provision. All of UKI's insurance business is included within the non-life underwriting risk module of the Internal Economic Capital Model. The standard formula non-life underwriting risk calculation excludes the annuity portion of approved periodic payment order claims, which are considered within the life underwriting risk component, as well as the income protection business, which is considered within the health underwriting risk component. This further reduces the diversification effect within non-life underwriting risk in the standard formula compared with the Internal Economic Capital Model. This diversification effect is however allowed for in the standard formula when aggregating the various underwriting risk components. The Internal Economic Capital Model allows for periodic payment orders explicitly including longevity, wage inflation, propensity and reinsurance indexation. The Internal Economic Capital Model SCR utilises specialist catastrophe modelling software and focuses on those catastrophe types that have affected UKI in the past or that are most likely given the UKI portfolio. The standard formula SCR is based on prescribed scenarios which are in turn based on the Solvency II lines of business written by UKI.

Risk margin volatility

The Internal Economic Capital Model SCR includes allowance for risk margin volatility.

Operational risk

The Internal Economic Capital Model SCR basis uses a scenario-based approach which represents the UKI risk profile, considering its current risk and control environment. The standard formula calculates the SCR for operational risk, based on the premium earned in the last 12 months, the Solvency II technical provisions at the valuation date and the change in earned premium when compared to the 12 months prior to the last 12 months.

Tax

The UKI standard formula takes credit for any deferred tax liability which may exist in UKI; however, this is not allowed for in the Internal Economic Capital Model SCR.

CIC

The method used to calculate the Internal Economic Capital Model capital charge for the risk relating to CIC is to use an uplifted standard formula calculation, with specific allowance for periodic payment order risk based on the Internal Economic Capital Model calibration, with no diversification benefit applied for the rest of UKI.

Risk measure and period used in the internal model

The Group's partial internal model uses a confidence level of 99.5% over a one-year period and therefore provides an equivalent level of protection for policyholders.

Nature and appropriateness of the data used in the Internal Economic Capital Model

The Internal Economic Capital Model uses both internal data and external data to calibrate parameters. Key internal data is primarily comprised of claims data which is also used for reserving and pricing purposes. The data is directly related to the risks on the balance sheet and those expected to be assumed in the next 12 months of underwriting, and therefore appropriate to use for the calibration of the Internal Economic Capital Model following adjustments for changes in exposure and risk mix.

Where there is insufficient internal data the Internal Economic Capital Model relies on external models and data. The key risks which utilise external models and data are catastrophe risk and market risk. External models and data are subject to the same standards as internally developed models. Market studies and industry data are used as a reference and as validation points. The Institute and Faculty of Actuaries Periodic Payment Order working party results are considered.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

The Group has been compliant with the MCR and SCR, throughout the reporting period.

E.6 Any other information

On both 30 March 2023 and 14 September 2023 Direct Line Insurance Group plc subscribed for one share in U K Insurance Limited for a subscription price of £50 million. The two shares issued have a nominal value of £1 and accordingly have resulted in an combined increase in share premium of £99,999,998. This does not impact the solvency of the Group.

SECTION F: OTHER INFORMATION

In this section:

F.1 Approval by the Boards of the Single Solvency and Financial Condition Report for the year ended 31 December 2023

We certify that:

- the Single Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

we are satisfied that:

- throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
- it is reasonable to believe that, at the date of the publication of the Single Solvency and Financial Condition Report, the insurer has continued so to comply, and will continue so to comply in the future.

On behalf of the Boards.

NEIL MANSER

CHIEF FINANCIAL OFFICER

5 April 2024

F.2 Report of the external independent auditor to the Directors of Direct Line Insurance Group plc ('the Group') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 31 December 2023, ('the Narrative Disclosures subject to audit');
- Direct Line Insurance Group plc templates S.02.01.02, S.22.01.22, S.23.01.22 and S32.01.22 ('the Group Templates subject to audit');
- U K Insurance Limited templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 ('the Solo Templates subject to audit'); and
- Churchill Insurance Company Limited templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Solo Templates subject to audit').

The Narrative Disclosures subject to audit and the Group Templates and Solo Templates subject to audit are collectively referred to as the 'relevant elements of the Group SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the relevant elements of the Group SFCR set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group SFCR;
- Direct Line Insurance Group plc templates S.05.01.02, S.05.02.01, and S.25.02.22;
- U K Insurance Limited templates S.05.02.01, S.05.01.02, S.19.01.21, and S.25.03.21;
- Churchill Insurance Company Limited templates S.05.02.01, S.05.01.02 and S.19.01.21:
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group SFCR ('the Responsibility Statement');
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with a UK law other than the Solvency II regulations ('the sectoral information').

To the extent the information subject to audit in the relevant elements of the Group SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group SFCR of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Group SFCR, which describe the basis of accounting. The Group SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the Group SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

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 SFCR is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the internal controls relating to management's going concern assessment process;
- We assessed the impact of emerging issues and the current macroeconomic environment on the future capital position of the Group;
- We assessed management's strategic plan and challenged management's underlying business plans and forecasts to support key forward-looking assumptions such as the Group's growth and discount rates given our understanding of the Group and its industry. This included assessing the impact of the sale of the brokered commercial business, the liquidity forecast, the 3-year structured 10% quota share arrangement and the partnership with Motability; and
- We evaluated management's stress test, independently performing sensitivity analysis to assess the impact of various scenarios on the Group's solvency headroom.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of climate change, the current economic climate, the requirements of the applicable financial reporting framework and the system of internal control.

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 Company's ability to continue as a going concern for a period of at least twelve months from when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group SFCR does not cover the Other Information and we do not express an audit opinion or 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 relevant elements of the Group SFCR, 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 there is a material misstatement in the relevant elements of the Group SFCR 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.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group SFCR 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 it 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 decision making or the judgement of the users taken on the basis of the Group SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the Group SFCR.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II as implemented in the UK; and
- do not have a direct effect on the SFCR but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the UK Companies Act, Listing Rules and tax legislation.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the valuation of the technical provisions, and our specific procedures performed to address this is described below:

- Building on our IFRS audit work on the underlying estimates and assumptions, we focused on any adjustments to the technical provisions for Solvency II. We have assessed whether the best estimate reported under IFRS 17 can be considered a best estimate liability under Solvency II.
- Also, we have engaged our actuarial specialists to assess any changes from the IFRS basis and have challenged the supporting analysis prepared by management.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. 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.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

F. OTHER INFORMATION continued

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing correspondence with the PRA and FCA and reviewing internal audit reports.

Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and UK law relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Direct Line Insurance Group plc's statutory financial statements. 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 relation to this matter.

Use of our Report

This report is made solely to the Directors of Direct Line Insurance Group plc in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the Group SFCR 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 PRA, for our audit work, for this report or for the opinions we have formed.

Andrew Holland FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

5 April 2024

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

Direct Line Insurance Group plc (Group partial internal model)

The relevant elements of the Group SFCR that are not subject to audit comprise:

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of Group template S.22.01.22:
  - Column C0030 – Impact of transitional measure on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22:
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level
  - Row R0380: Non-available ancillary own funds at group level
  - Rows R0410 to R0440 – Own funds of other financial sectors
  - Row R0680: Group SCR
  - Row R0690: Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included in D&A
  - Row 0740: Adjustment for restricted Own funds items in respect of matching adjustment portfolios and ring fenced funds
  - Row 0750: Other non available own fund items

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

U K Insurance Limited (Solo Internal Model)

The relevant elements of the SFCR that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02:
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02:
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21:
  - Column C0030 – Impact of transitional measure on technical provisions
  - Row R0010 – Technical provisions

- Row R0090 – Solvency Capital Requirement

◦ The following elements of template S.23.01.01:
  - Row R0580: SCR
  - Row R0620: Ratio of Eligible own funds to SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

◦ The following elements of template S.28.01.01 / S.28.02.01:
  - Row R0310: SCR
  - Row R0320: MCR cap
  - Row R0330: MCR floor

◦ Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Churchill Insurance Company Limited (Solo standard formula)

The relevant elements of the SFCR that are not subject to audit comprise:

◦ The following elements of template S.12.01.02:
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

◦ The following elements of template S.17.01.02:
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

◦ The following elements of template S.22.01.21:
  - Column C0030 – Impact of transitional measure on technical provisions

◦ Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

F.3 Forward-looking statements disclaimer

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets", "vision", "will" or "would" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They may appear in several places throughout this document and include statements regarding intentions, beliefs or current expectations, including of the Directors, concerning, among other things: the Group's results of operations, statement of financial position, financial condition, prospects, growth, net insurance margin, insurance service result, strategies, the industry in which the Group operates and the Group's approach to climate-related matters. Examples of forward-looking statements include financial targets which are contained in this document with respect to return on tangible equity, solvency capital ratio, net insurance margin, combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reductions, reduction in net expense ratio, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range; and targets, goals and plans relating to climate and the Group's approach and strategy in connection with climate-related risks and opportunities. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control and/or they rely on assumptions that may or may not transpire to be correct. Forward-looking statements are not guaranteeing future performance.

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

- United Kingdom ("**UK**") domestic and global economic business conditions;
- the direct and indirect impacts and implications of the coronavirus Covid-19 pandemic on the economy, nationally and internationally, on the Group, its operations and prospects, and on the Group's customers and their behaviours and expectations;
- the Trade and Cooperation Agreement between the UK and the European Union ("**EU**") regarding the terms of the trading relationships between the UK and the EU and its implementation, and any subsequent trading and other relationship arrangements between the UK and the EU and their implementation;
- the terms of trading and other relationships between the UK and other countries following Brexit;
- the impact of the FCA's PPR regulations and Consumer Duty regulations and of responses by insurers, customers and other third parties and of interpretations of such rules by any relevant regulatory authority;
- market-related risks such as fluctuations in interest rates, exchange rates and credit spreads, including those created or exacerbated by the war in Ukraine following the Russian invasion and/or the conflict in the Middle East involving Israel and Gaza;
- the policies and actions and/or new principles, rules and/or regulations, of regulatory authorities and bodies, and of changes to, or changes to interpretations of, principles, rules and/or regulations (including changes made directly or indirectly as a result of Brexit or related to capital and solvency requirements or related to the Ogden discount rates or made in response to the Covid-19 pandemic and its impact on the economy and customers) and of changes to law and/or understandings of law and/or legal interpretation following the decisions and judgements of courts;
- the impact of competition, currency changes, inflation and deflation;
- the timing, impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
- the impact of tax and other legislation and other regulation and of regulator expectations, requirements, interventions, enforcements, fines and requirements and of court, arbitration, regulatory or ombudsman decisions, judgements and awards (including in any of the foregoing in connection with the Covid-19 pandemic) in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

F.4 Glossary

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 solvency capital ratio	The ratio of Solvency II own funds to the solvency capital requirement, which excludes the Tier 2 subordinated debt which can first be called on 27 April 2022 from the Group's own funds.
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.
Brokered commercial business ("**NIG**").	The brokered commercial insurance business of U K Insurance Limited which it was announced on 6 September 2023 was being sold to Royal & Sun Alliance Insurance Limited. The Group has retained the back book of the business written and earned prior to 1 October 2023 (the "Risk Transfer Date"). Business written and earned on and subsequent to the Risk Transfer Date will be subject to a quota share arrangement between the two companies. Over time the two Companies intend to enter into discussions regarding the potential transfer of the back book of policies written prior to the Risk Transfer Date. The term brokered commercial business does not meet the criteria of a discontinued operation as defined under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and has not been accounted for as such.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes in addition, subordinated loan capital in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Capital coverage ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Direct Line Insurance Internal Capital Engine ("**DIICE**")	DIICE is the calculation kernel in the IECM, where it is DIICE that calculates the solvency capital requirement.
Expenses incurred	Expenses incurred equal total expenses per the IFRS income statement less non-technical expenses plus claims handling expenses.
Financial Conduct Authority ("**FCA**")	The independent body responsible for regulating the UK's financial services industry.
Gross written premium	The total premiums from contracts that were incepted during the period.
Group	Direct Line Insurance Group plc and its subsidiaries.
International Accounting Standards Board ("**IASB**")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
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.
Internal Economic Capital Model ("**IECM**")	The IECM is an internal model as outlined by Article 112 of the Solvency II Directive.
Investment income yield	The income earned from the investment portfolio, recognised through the IFRS 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 Appendix A – Alternative performance measures – on page 267 of the Annual Report & Accounts 2023.
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 Appendix A – Alternative performance measures – on page 267 of the Annual Report & Accounts 2023.
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.

Glossary continued

Term	Definition and explanation
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Minimum capital requirement ("**MCR**")	The minimum amount of capital that an insurer needs to hold to cover its risk 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 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.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.
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. Normalised operating profit is operating profit adjusted for weather and changes to the Ogden discount rate.
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.
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 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.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Return on Tangible Equity ("**RoTE**")	This is adjusted 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 Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19%. See Appendix A - Alternative performance measures – on page 267 of the Annual Report & Accounts 2023.
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.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
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 SCR.
Underwriting result profit/(loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restricting and other one-off costs.

Section G:

G. QUANTITATIVE REPORTING TEMPLATES

In this section:

G.1 SUMMARY OF QUANTITATIVE REPORTING TEMPLATES

The templates are provided as an appendix to this document. The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

Entity	Template code	Template name
Group	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.22.01.22	Impact of long-term guarantees and transitional measures
	S.23.01.22	Own funds
	S.25.02.22	Solvency capital requirement – for groups using the standard formula and partial internal
	S.32.01.22	Undertakings in the scope of the group
UKI	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long-term guarantees and transitional measures
	S.23.01.01	Own funds
	S.25.03.21	Solvency capital requirement – for undertakings on full internal models
	S.28.01.01	Minimum capital requirement – only life or only non-life insurance or reinsurance activity
CIC	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long term guarantees and transitional measures
	S.23.01.01	Own funds
	S.25.01.21	Solvency capital requirement – for undertakings on standard formula
	S.28.01.01	Minimum capital requirement – only life or only non-life insurance or reinsurance activity

G.2 DIRECT LINE INSURANCE GROUP PLC

General information

Undertaking name	**Direct Line Insurance Group plc**
Undertaking identification code	213800FF2R23ALJQOP04
Type of code of undertaking	LEI
Type of undertaking	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	IFRS
Method of calculation of the SCR	The Group uses a partial internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: – Motor vehicle liability insurance – General liability insurance – Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.22.01.22	Impact of long-term guarantees and transitional measures
S.23.01.22	Own funds
S.25.02.22	Solvency capital requirement – for groups using the standard formula and partial internal model
S.32.01.22	Undertakings in the scope of the group

G.2 DIRECT LINE INSURANCE GROUP PLC continued

S.02.01.02 – Balance sheet

(£'000)

		Solvency II value
		C0010
	Assets	
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	87,340
R0050	Pension benefit surplus	1,275
R0060	Property, plant and equipment held for own use	145,691
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**5,251,905**
R0080	Property (other than for own use)	277,151
R0090	Holdings in related undertakings, including participations	
R0100	Equities	**19,526**
R0110	Equities – listed	74
R0120	Equities – unlisted	19,452
R0130	Bonds	**3,303,616**
R0140	Government bonds	706,381
R0150	Corporate bonds	2,597,235
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	1,624,186
R0190	Derivatives	27,426
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	**362,348**
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	362,348
R0270	Reinsurance recoverables from:	**846,150**
R0280	Non-life and health similar to non-life	**483,851**
R0290	Non-life excluding health	483,851
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	**362,299**
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	362,299
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	58,129
R0370	Reinsurance receivables	233,041
R0380	Receivables (trade, not insurance)	195,218
R0390	Own shares (held directly)	24,914
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	148,007
R0420	Any other assets, not elsewhere shown	22,165
R0500	**Total assets**	**7,376,183**

S.02.01.02 – Balance sheet (continued)

(£'000)

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	**3,796,579**
R0520	Technical provisions – non-life (excluding health)	**3,792,748**
R0530	TP calculated as a whole	
R0540	Best estimate	3,683,845
R0550	Risk margin	108,903
R0560	Technical provisions – health (similar to non-life)	**3,831**
R0570	TP calculated as a whole	
R0580	Best estimate	3,639
R0590	Risk margin	192
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**745,629**
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	**745,629**
R0660	TP calculated as a whole	
R0670	Best estimate	708,044
R0680	Risk margin	37,585
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	95,800
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	15,360
R0800	Debts owed to credit institutions	82,376
R0810	Financial liabilities other than debts owed to credit institutions	106,100
R0820	Insurance and intermediaries payables	672
R0830	Reinsurance payables	50,480
R0840	Payables (trade, not insurance)	173,093
R0850	Subordinated liabilities	**217,495**
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	217,495
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**5,283,584**
R1000	**Excess of assets over liabilities**	**2,092,599**

302461

S.05.01.02 – Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								Total
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0020	C0040	C0050	C0070	C0080	C0100	C0110	C0120	**C0200**
	Premiums written									
R0110	Gross – direct business	3,569	1,580,734	754,721	968,304	136,753	63,885	304,510	105,882	**3,918,358**
R0120	Gross – proportional reinsurance accepted									
R0130	Gross – non-proportional reinsurance accepted									
R0140	Reinsurers' share	4	460,286		119,499	25,703	219	2,049	5,222	**612,982**
R0200	Net	**3,565**	**1,120,448**	**754,721**	**848,805**	**111,050**	**63,666**	**302,461**	**100,660**	**3,305,376**
	Premiums earned									
R0210	Gross – direct business	3,569	1,309,732	679,713	905,738	125,832	66,822	309,251	104,669	**3,505,326**
R0220	Gross – proportional reinsurance accepted									
R0230	Gross – non-proportional reinsurance accepted									
R0240	Reinsurers' share	4	301,018		135,066	26,081	219	2,049	5,761	**470,198**
R0300	Net	**3,565**	**1,008,714**	**679,713**	**770,672**	**99,751**	**66,603**	**307,202**	**98,908**	**3,035,128**
	Claims incurred									
R0310	Gross – direct business	1,017	1,473,162	509,177	503,049	13,898	(741)	184,836	63,598	**2,747,996**
R0320	Gross – proportional reinsurance accepted									
R0330	Gross – non-proportional reinsurance accepted									
R0340	Reinsurers' share	(39)	361,929		79,134	6,141	(234)	3,739	2,587	**453,257**
R0400	Net	**1,056**	**1,111,233**	**509,177**	**423,915**	**7,757**	**(507)**	**181,097**	**61,011**	**2,294,739**
	Changes in other technical provisions									
R0410	Gross – direct business									
R0420	Gross – proportional reinsurance accepted									
R0430	Gross – non-proportional reinsurance accepted									
R0440	Reinsurers' share									
R0500	Net									
R0550	**Expenses incurred**	2,624	374,185	244,253	326,285	42,187	16,919	104,973	28,322	**1,139,748**
R1200	Other expenses									24,809
R1300	**Total expenses**									**1,164,557**

S.05.01.02 – Premiums, claims and expenses by line of business (continued)
Life
(£'000)

		Line of business for: life insurance obligations – Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Gross – reinsurers share		
R1450	Net		
	Premiums earned		
R1510	Gross		
R1520	Gross – reinsurers share		
R1600	Net		
	Claims incurred		
R1610	Gross	(49,507)	**(49,507)**
R1620	Gross – reinsurers share	(29,798)	**(29,798)**
R1700	Net	**(19,709)**	**(19,709)**
	Changes in other technical provisions		
R1710	Gross		
R1720	Gross – reinsurers share		
R1800	Net		
R1900	**Expenses incurred**	2	**2**
R2500	Other expenses		
R2600	**Total expenses**		**2**

G.2 DIRECT LINE INSURANCE GROUP PLC continued

S.05.02.01 – Premiums, claims and expenses by country Non-life (£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	**Total top 5 and home country**
			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,918,245	113	**3,918,358**
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	612,982		**612,982**
R0200	Net	**3,305,263**	**113**	**3,305,376**
	Premiums earned			
R0210	Gross – direct business	3,505,326		**3,505,326**
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	470,198		**470,198**
R0300	Net	**3,035,128**		**3,035,128**
	Claims incurred			
R0310	Gross – direct business	2,747,996		**2,747,996**
R0320	Gross – proportional reinsurance accepted			
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	453,257		**453,257**
R0400	Net	**2,294,739**		**2,294,739**
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	**Expenses incurred**	1,139,647	101	**1,139,748**
R1200	Other expenses			24,809
R1300	**Total expenses**			**1,164,557**

S.05.02.01 – Premiums, claims and expenses by country (continued)
Life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	**Total top 5 and home country**
			IRL	
		C0220	C0230	C0280
	Premiums written			
R0110	Gross – direct business			
R1420	Reinsurers' share			
R1450	Net			
	Premiums earned			
R1510	Gross – direct business			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross – direct business	(49,507)		**(49,507)**
R1620	Reinsurers' share	(29,798)		**(29,798)**
R1700	Net	**(19,709)**		**(19,709)**
	Changes in other technical provisions			
R1710	Gross – direct business			
R1720	Reinsurers' share			
R1800	Net			
R1900	**Expenses incurred**	2		**2**
R2500	Other expenses			
R2600	**Total expenses**			**2**

S.22.01.22

Impact of long-term guarantees and transitional measures (£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	4,542,208			73,483	
R0020	Basic own funds	2,233,272			(29,887)	
R0050	Eligible own funds to meet Solvency Capital Requirement	2,233,272			(17,126)	
R0090	Solvency Capital Requirement	1,133,043			4,445	

S.23.01.22 – Own funds (£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
R0010	Ordinary share capital (gross of own shares)	**143,061**	143,061			
R0020	Non-available called but not paid in ordinary share capital at group level					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type Undertakings					
R0050	Subordinated mutual member accounts					
R0060	Non-available subordinated mutual member accounts at group level					
R0070	Surplus funds					
R0080	Non-available surplus funds at group level					
R0090	Preference shares					
R0100	Non-available preference shares at group level					
R0110	Share premium account related to preference shares					
R0120	Non-available share premium account related to preference shares at group level					
R0130	Reconciliation reserve	**1,459,789**	1,459,789			
R0140	Subordinated liabilities	**217,495**			217,495	
R0150	Non-available subordinated liabilities at group level					
R0160	An amount equal to the value of net deferred tax assets	**87,340**				87,340
R0170	The amount equal to the value of net deferred tax assets not available at the group level					
R0180	Other items approved by supervisory authority as basic own funds not specified above	**325,587**		325,587		
R0190	Non-available own funds related to other own funds items approved by supervisory authority					
R0200	Minority interest (if not reported as part of a specific own fund item)					
R0210	Non-available minority interests at group level					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities					
R0240	whereof deducted according to Article 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	Total of non-available own fund items					
R0280	Total deductions					
R0290	Total basic own funds after deductions	**2,233,272**	**1,602,850**	**325,587**	**217,495**	**87,340**
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members – calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0380	Non-available ancillary own funds at group level					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					

S.23.01.22 – Own funds (continued) (£'000)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds of other financial sectors					
R0410	Reconciliation reserve					
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors					
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method					
R0460	Own funds aggregated when using the D&A and combination of method net of IGT					
R0520	Total available own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**2,233,272**	**1,602,850**	**325,587**	**217,495**	**87,340**
R0530	Total available own funds to meet the minimum consolidated Group SCR	**2,145,932**	**1,602,850**	**325,587**	**217,495**	
R0560	Total eligible own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**2,233,272**	**1,602,850**	**325,587**	**217,495**	**87,340**
R0570	Total eligible own funds to meet the minimum consolidated Group SCR	**2,028,427**	**1,602,850**	**325,587**	**99,990**	
R0610	**Minimum consolidated Group SCR**	**499,951**				
R0650	**Ratio of eligible own funds to minimum consolidated Group SCR**	**4.0573**				
R0660	**Total eligible own funds to meet the Group SCR (including own funds from other financial sector and from the undertakings (included via D&A)**	**2,233,272**	**1,602,850**	**325,587**	**217,495**	**87,340**
R0680	**Group SCR**	**1,133,043**				
R0690	**Ratio of eligible own funds to Group SCR including other financial sectors and the undertakings included via D&A**	**1.9710**				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	2,092,599
R0710	Own shares (held directly and indirectly)	24,914
R0720	Foreseeable dividends, distributions and charges	51,908
R0730	Other basic own fund items	555,988
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	
R0750	Other non-available own funds	
R0760	**Reconciliation reserve before deduction for participations in other financial sector**	**1,459,789**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	245,037
R0790	**Total expected profits included in future premiums (EPIFP)**	**245,037**

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.02.22 – Solvency Capital Requirement –for groups using the standard formula and partial internal model
(£'000)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
10301I	Other interest rate risk – interest rate risk (assets)	(81,635)	(81,635)		
10302I	Other interest rate risk – interest rate risk (liabilities)	351,952	351,952		
10399I	Diversification within other interest rate risk	(260,903)	(260,903)		
10400I	Equity risk				
10600I	Property risk	45,478	45,478		
10701I	Spread risk	262,246	262,246		
10702I	Credit risk (asset)	71,583	71,583		
10799I	Diversification within spread and credit risk (asset)	(63,011)	(63,011)		
10800I	Concentration risk				
10900I	Currency risk				
19900I	Diversification within market risk	(154,554)	(154,554)		
20300I	Other counterparty risk	72,592	72,592		
50100I	Premium risk	578,523	578,523		
50200I	Reserve risk	595,841	595,841		
50300I	Non-life catastrophe risk	361,037	361,037		
59900I	Diversification within non-life underwriting risk	(448,604)	(448,604)		
70100I	Operational risk	303,629	303,629		
80100I	Other risks	28,823	28,823		
80300I	Loss-absorbing capacity of deferred tax				
80400I	Other adjustments				

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	1,662,997
R0060	Diversification	(559,761)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**1,103,236**
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement for undertakings under consolidated method**	**1,133,043**
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	
R0470	Minimum consolidated Group Solvency Capital Requirement	499,951
	Information on other entities	
R0500	Capital requirement for other financial sectors (non-insurance capital requirements)	
R0510	Capital requirement for other financial sectors (non-insurance capital requirements) – credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	
R0520	Capital requirement for other financial sectors (non-insurance capital requirements) – institutions for occupational retirement provisions	
R0530	Capital requirement for other financial sectors (non-insurance capital requirements) – capital requirement for non-regulated entities carrying out financial activities	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	29,807
	Overall SCR	
R0560	SCR for undertakings included via D&A	
R0570	**Solvency Capital Requirement**	**1,133,043**

G.2 DIRECT LINE INSURANCE GROUP PLC continued

S.32.01.22 – Undertakings in the Scope of the Group

Country	Identification code of undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual / non mutual)	Supervisory authority
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
GB	213800FF2R23ALJQOP04	LEI	Direct Line Insurance Group plc	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
GB	549300Z5UV7Z65LTYJ43	LEI	U K Insurance Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Prudential Regulatory Authority
GB	2138007B4PLYNW611O59	LEI	Churchill Insurance Company Limited	Non life insurance undertaking	Company limited by shares	Non-mutual	Prudential Regulatory Authority
GB	2138008ZP4216R8AZA45	LEI	U K Insurance Business Solutions Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	21380093VNH85CCTZM58	LEI	National Breakdown Recovery Club Limited	Other	Company limited by shares	Non-mutual	
GB	213800AEN577VPYUWS88	LEI	DLG Pension Trustee Limited	Other	Company limited by shares	Non-mutual	
GB	213800C229CRIQN7Q486	LEI	Direct Line Insurance Limited	Other	Company limited by shares	Non-mutual	
GB	213800ECJ98JKW8XPO58	LEI	DL Insurance Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	213800FUQURSPS5NPZ53	LEI	DLG Legal Services Limited	Other	Company limited by shares	Non-mutual	
GB	213800G23ZAHTDQ7JS64	LEI	UKI Life Assurance Services Limited	Other	Company limited by shares	Non-mutual	
GB	213800GGXWCI3AQUP330	LEI	UK Assistance Accident Repair Centres Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	213800JGMYQA8ZU3KF17	LEI	Farmweb Limited	Other	Company limited by shares	Non-mutual	
GB	213800L4GCDT4J556J73	LEI	Nationwide Breakdown Recovery Services Limited	Other	Company limited by shares	Non-mutual	
GB	213800LF9K2SZXPFQY79	LEI	UK Assistance Limited	Other	Company limited by shares	Non-mutual	
GB	213800MFLWGG2N8OVA34	LEI	Green Flag Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	213800MN5P5DE45U9W69	LEI	The National Insurance and Guarantee Corporation Limited	Other	Company limited by shares	Non-mutual	
GB	213800MRCD2SJWT8EB37	LEI	Inter Group Insurance Services Limited	Other	Company limited by shares	Non-mutual	
GB	213800R3C7Z1Q73IWN57	LEI	Green Flag Group Limited	Other	Company limited by shares	Non-mutual	
GB	213800RFERZVGSMGH748	LEI	Finsure Premium Finance Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	213800RSEDIUJJHXTF77	LEI	Direct Line Group Limited	Other	Company limited by shares	Non-mutual	
GB	213800S4FRZFA1QH3Y58	LEI	Green Flag Holdings Limited	Other	Company limited by shares	Non-mutual	
IN	213800YY63HNK4VO2G95	LEI	DL Support Services India Private Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
GB	213800ZJIPTGNL7FP828	LEI	Intergroup Assistance Services Limited	Other	Company limited by shares	Non-mutual	
GB	2138007NUHFZPO3H5N36	LEI	Brolly UK Technology Limited	Other	Company limited by shares	Non-mutual	
JE	213800MEX738WOUMSC13	LEI	10-15 Livery Street, Birmingham UK Limited	Other	Company limited by shares	Non-mutual	
GB	254900KAKJ69FTHWLM38	LEI	By Miles Limited	Other	Company limited by shares	Non-mutual	
GB	2138004JHIBKQGNARB63	LEI	By Miles Payment Services	Other	Company limited by shares	Non-mutual	
GB	213800F8AZZYF1RFHU19	LEI	By Miles Technology Services	Other	Company limited by shares	Non-mutual	
GB	213800M3E2VB4RDAQE35	LEI	By Miles Group	Other	Company limited by shares	Non-mutual	

G.2 DIRECT LINE INSURANCE GROUP PLC continued

S.32.01.22 – Undertakings in the scope of the Group (continued)

				Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/no	Date of decision if Article 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800FF2R23ALJQOP04	LEI	Direct Line Insurance Group plc							Included in the scope		Method 1: Full consolidation
GB	549300Z5UV7Z65LTYJ43	LEI	U K Insurance Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	2138007B4PLYNW611O59	LEI	Churchill Insurance Company Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	2138008ZP4216R8AZA45	LEI	U K Insurance Business Solutions Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	21380093VNH85CCTZM58	LEI	National Breakdown Recovery Club Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Adjusted equity method
GB	213800AEN577VPYUWS88	LEI	DLG Pension Trustee Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Adjusted equity method
GB	213800C229CRIQN7Q486	LEI	Direct Line Insurance Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Adjusted equity method
GB	213800ECJ98JKW8XPO58	LEI	DL Insurance Services Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	213800FUQURSPS5NPZ53	LEI	DLG Legal Services Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Adjusted equity method
GB	213800G23ZAHTDQ7JS64	LEI	UKI Life Assurance Services Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Adjusted equity method
GB	213800GGXWCI3AQUP330	LEI	UK Assistance Accident Repair Centres Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	213800JGMYQA8ZU3KF17	LEI	Farmweb Limited	100	100	100		Dominant	10,000	Included in the scope		Method 1: Full consolidation
GB	213800L4GCDT4J556J73	LEI	Nationwide Breakdown Recovery Services Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Adjusted equity method
GB	213800LF9K2SZXPFQY79	LEI	UK Assistance Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Adjusted equity method
GB	213800MFLWGG2N8OVA34	LEI	Green Flag Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800MN5P5DE45U9W69	LEI	The National Insurance and Guarantee Corporation Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Adjusted equity method
GB	213800MRCD2SJWT8EB37	LEI	Inter Group Insurance Services Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800R3C7Z1Q73IWN57	LEI	Green Flag Group Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800RFERZVGSMGH748	LEI	Finsure Premium Finance Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800RSEDIUJJHXTF77	LEI	Direct Line Group Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800S4FRZFA1QH3Y58	LEI	Green Flag Holdings Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
IN	213800YY63HNK4VO2G95	LEI	DL Support Services India Private Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800ZJIPTGNL7FP828	LEI	Intergroup Assistance Services Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	2138007NUHFZPO3H5N36	LEI	Brolly UK Technology Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
JE	213800MEX738WOUMSC13	LEI	10-15 Livery Street, Birmingham UK Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	254900KAKJ69FTHWLM38	LEI	By Miles Limited	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	2138004JHIBKQGNARB63	LEI	By Miles Payment Services	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800F8AZZYF1RFHU19	LEI	By Miles Technology Services	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation
GB	213800M3E2VB4RDAQE35	LEI	By Miles Group	100	100	100		Dominant	100	Included in the scope		Method 1: Full consolidation

G.3 U K INSURANCE LIMITED

General information

Undertaking name	**U K Insurance Limited**
Undertaking identification code	549300Z5UV7Z65LTYJ43
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Full internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: – Motor vehicle liability insurance – General liability insurance – Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and health SLT technical provisions
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.22.01.21	Impact of long-term guarantees and transitional measures
S.23.01.01	Own funds
S.25.03.21	Solvency capital requirement – for undertakings on full internal models
S.28.01.01	Minimum capital requirement – only life or only non-life insurance or reinsurance activity

S.02.01.02 – Balance sheet

(£'000)

		Solvency II value
		C0010
	Assets	
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	55,037
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**5,059,242**
R0080	Property (other than for own use)	277,150
R0090	Holdings in related undertakings, including participations	13,544
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	**3,303,616**
R0140	Government bonds	706,381
R0150	Corporate bonds	2,597,235
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	1,437,506
R0190	Derivatives	27,426
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	**361,972**
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	361,972
R0270	Reinsurance recoverables from:	**820,239**
R0280	Non-life and health similar to non-life	**483,851**
R0290	Non-life excluding health	483,851
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	**336,388**
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	336,388
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	58,088
R0370	Reinsurance receivables	232,568
R0380	Receivables (trade, not insurance)	159,687
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	136,095
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	**6,882,928**

S.02.01.02 – Balance sheet (continued)

(£'000)

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	**3,928,112**
R0520	Technical provisions – non-life (excluding health)	**3,924,281**
R0530	TP calculated as a whole	
R0540	Best estimate	3,815,378
R0550	Risk margin	108,903
R0560	Technical provisions – health (similar to non-life)	**3,831**
R0570	TP calculated as a whole	
R0580	Best estimate	3,639
R0590	Risk margin	192
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**713,453**
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	**713,453**
R0660	TP calculated as a whole	
R0670	Best estimate	675,965
R0680	Risk margin	37,488
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	65,000
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	29,728
R0790	Derivatives	15,070
R0800	Debts owed to credit institutions	72,088
R0810	Financial liabilities other than debts owed to credit institutions	99,965
R0820	Insurance and intermediaries payables	420
R0830	Reinsurance payables	50,480
R0840	Payables (trade, not insurance)	29,304
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**5,003,620**
R1000	**Excess of assets over liabilities**	**1,879,308**

S.05.01.02 – Premiums, claims and expenses by line of business Non-life (£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								Total
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0020	C0040	C0050	C0070	C0080	C0100	C0110	C0120	**C0200**
	Premiums written									
R0110	Gross – direct business	3,569	1,581,512	755,212	968,317	137,120	63,885	304,511	105,882	**3,920,008**
R0120	Gross – proportional reinsurance accepted									
R0130	Gross – non-proportional reinsurance accepted									
R0140	Reinsurers' share	4	460,286		119,499	25,703	219	2,049	5,222	**612,982**
R0200	Net	**3,565**	**1,121,226**	**755,212**	**848,818**	**111,417**	**63,666**	**302,462**	**100,660**	**3,307,026**
	Premiums earned									
R0210	Gross – direct business	3,569	1,310,423	680,150	905,755	126,174	66,822	309,253	104,669	**3,506,815**
R0220	Gross – proportional reinsurance accepted									
R0230	Gross – non-proportional reinsurance accepted									
R0240	Reinsurers' share	4	301,017		135,066	26,081	219	2,050	5,761	**470,198**
R0300	Net	**3,565**	**1,009,406**	**680,150**	**770,689**	**100,093**	**66,603**	**307,203**	**98,908**	**3,036,617**
	Claims incurred									
R0310	Gross – direct business	1,017	1,489,318	748,219	503,015	13,898	(741)	184,851	63,682	**3,003,259**
R0320	Gross – proportional reinsurance accepted									
R0330	Gross – non-proportional reinsurance accepted									
R0340	Reinsurers' share	(39)	361,929		79,134	6,141	(234)	3,739	2,587	**453,257**
R0400	Net	**1,056**	**1,127,389**	**748,219**	**423,881**	**7,757**	**(507)**	**181,112**	**61,095**	**2,550,002**
	Changes in other technical provisions									
R0410	Gross – direct business									
R0420	Gross – proportional reinsurance accepted									
R0430	Gross – non-proportional reinsurance accepted									
R0440	Reinsurers' share									
R0500	Net									
R0550	**Expenses incurred**	2,632	362,417	238,787	324,737	42,328	16,840	97,731	28,186	**1,113,658**
R1200	Other expenses									29,380
R1300	**Total expenses**									**1,143,038**

S.05.01.02 – Premiums, claims and expenses by line of business (continued)
Life
(£'000)

		Line of business for: life insurance obligations – Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Gross – reinsurers share		
R1450	Net		
	Premiums earned		
R1510	Gross		
R1520	Gross – reinsurers share		
R1600	Net		
	Claims incurred		
R1610	Gross	(50,411)	**(50,411)**
R1620	Gross – reinsurers share	(30,534)	**(30,534)**
R1700	Net	**(19,877)**	**(19,877)**
	Changes in other technical provisions		
R1710	Gross		
R1720	Gross – reinsurers share		
R1800	Net		
R1900	**Expenses incurred**		
R2500	Other expenses		
R2600	**Total expenses**		

G.3 U K INSURANCE LIMITED continued

S.05.02.01 – Premiums, claims and expenses by country
Non-life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,919,980	28	**3,920,008**
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	612,982		**612,982**
R0200	Net	**3,306,998**	**28**	**3,307,026**
	Premiums earned			
R0210	Gross – direct business	3,506,702	113	**3,506,815**
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	470,198		**470,198**
R0300	Net	**3,036,504**	**113**	**3,036,617**
	Claims incurred			
R0310	Gross – direct business	3,003,208	51	**3,003,259**
R0320	Gross – proportional reinsurance accepted			
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	453,257		**453,257**
R0400	Net	**2,549,951**	**51**	**2,550,002**
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	**Expenses incurred**	1,113,557	101	**1,113,658**
R1200	Other expenses			29,380
R1300	**Total expenses**			**1,143,038**

S.05.02.01 – Premiums, claims and expenses by country (continued)
Life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	Total top 5 and home country
			IRL	
		C0220	C0230	C0280
	Premiums written			
R0110	Gross – direct business			
R1420	Reinsurers' share			
R1450	Net			
	Premiums earned			
R1510	Gross – direct business			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross – direct business	(50,411)		**(50,411)**
R1620	Reinsurers' share	(30,534)		**(30,534)**
R1700	Net	**(19,877)**		**(19,877)**
	Changes in other technical provisions			
R1710	Gross – direct business			
R1720	Reinsurers' share			
R1800	Net			
R1900	**Expenses incurred**			
R2500	Other expenses			
R2600	**Total expenses**			

S.12.01.02 – Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (life other than health insurance, including unit-linked)
		C0090	C0150
R0010	**Technical provisions calculated as a whole**		
R0020	**Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole**		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	**Gross best estimate**	**675,965**	**675,965**
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	336,388	336,388
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	339,577	339,577
R0100	**Risk margin**	**37,488**	**37,488**
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	Technical provisions - total	**713,453**	**713,453**

S.17.01.02 – Non-life technical provisions (£'000)

		Direct business and accepted proportional reinsurance								
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
		C0030	C0050	C0060	C0080	C0090	C0110	C0120	C0130	C0180
R0010	**Technical provisions calculated as a whole**									
R0050	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									
	Technical provisions calculated as a sum of BE and RM									
	Best estimate									
	Premiums provisions									
R0060	Gross		168,425	227,990	106,045	(67,671)	8,548	19,641	(3,467)	459,511
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		(165,976)	(30,991)	(188,963)	12,030	(31)	(1,300)	(78)	(375,309)
R0150	Net best estimate of premium provisions		**334,401**	**258,981**	**295,008**	**(79,701)**	**8,579**	**20,941**	**(3,389)**	**834,820**
	Claims provisions									
R0160	Gross	3,639	2,581,706	(120,418)	544,283	189,235	32,908	89,794	38,359	3,359,506
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		709,737	63,952	69,837	10,789		(136)	4,981	859,160
R0250	Net best estimate of claims provisions	**3,639**	**1,871,969**	**(184,370)**	**474,446**	**178,446**	**32,908**	**89,930**	**33,378**	**2,500,346**
R0260	**Total best estimate - gross**	**3,639**	**2,750,131**	**107,572**	**650,328**	**121,564**	**41,456**	**109,435**	**34,892**	**3,819,017**
R0270	**Total best estimate - net**	**3,639**	**2,206,370**	**74,611**	**769,454**	**98,745**	**41,487**	**110,871**	**29,989**	**3,335,166**
R0280	**Risk margin**	192	61,760	10,509	27,510	7,521	440	997	166	109,095
	Amount of the transitional on technical provisions									
R0290	Technical provisions calculated as a whole									
R0300	Best estimate									
R0310	Risk margin									
	Technical provisions - total									
R0320	Technical provisions - total	**3,831**	**2,811,891**	**118,081**	**677,838**	**129,085**	**41,896**	**110,432**	**35,058**	**3,928,112**
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		543,761	32,961	(119,126)	22,819	(31)	(1,436)	4,903	483,851
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	3,831	2,268,130	85,120	796,964	106,266	41,927	111,868	30,155	3,444,261

S.19.01.21 – Non-life insurance claims

(£’000)

Z0020 **Accident year / underwriting year** | **Accident year**

Gross claims paid (non-cumulative)

(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	In current year	Sum of years (cumulative)
		Development year												
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	Prior											45,711	45,711	45,711
R0160	N-9	987,142	387,229	104,536	76,229	69,079	55,467	34,397	25,322	6,260	6,177		6,177	1,751,838
R0170	N-8	951,953	439,415	110,803	79,005	63,095	76,450	26,847	18,828	8,103			8,103	1,774,499
R0180	N-7	1,077,689	424,261	114,108	67,958	73,421	51,753	27,405	25,305				25,305	1,861,900
R0190	N-6	1,126,644	422,419	108,309	89,121	83,159	51,600	51,054					51,054	1,932,306
R0200	N-5	1,269,059	457,869	111,472	92,556	81,990	79,939						79,939	2,092,885
R0210	N-4	1,194,036	382,195	116,797	89,042	90,220							90,220	1,872,290
R0220	N-3	953,621	340,411	98,012	89,778								89,778	1,481,822
R0230	N-2	1,008,146	446,780	120,808									120,808	1,575,734
R0240	N-1	1,282,634	588,110										588,110	1,870,744
R0250	N	1,455,051											1,455,051	1,455,051
R0260													**2,560,256**	**17,714,780**

Gross undiscounted best estimate claims provisions

(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		Development year											
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	Prior											401,404	401,404
R0160	N-9	–	–	647,359	453,379	307,445	175,815	104,974	56,620	49,282	39,320		33,081
R0170	N-8	–	736,605	514,972	340,362	249,529	117,633	95,794	87,504	65,376			50,238
R0180	N-7	1,405,227	684,613	456,185	299,674	184,722	122,967	81,840	65,385				54,211
R0190	N-6	1,447,754	624,522	395,155	273,066	176,405	122,601	80,295					71,765
R0200	N-5	1,299,375	593,366	424,890	333,900	268,387	212,459						175,580
R0210	N-4	1,158,339	548,505	391,548	309,502	234,956							208,227
R0220	N-3	1,073,671	467,658	383,641	326,052								288,458
R0230	N-2	1,186,849	537,106	414,890									374,907
R0240	N-1	1,205,967	640,515										580,837
R0250	N	1,573,549											1,422,424
R0260													**3,661,132**

S.22.01.21

Impact of long-term guarantees and transitional measures (£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical Provisions	4,641,565			71,145	
R0020	Basic Own Funds	1,879,308			(15,729)	
R0050	Eligible Own funds to meet the Solvency Capital requirement	1,879,308			(15,729)	
R0090	Solvency Capital Requirement	1,103,236			4,445	
R0100	Eligible own funds to meet the minimum capital requirement	1,879,308			(29,858)	
R0110	Minimum Capital Requirement	496,456			2,000	

S.23.01.01 – Own funds (£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)	**580,765**	580,765			
R0030	Share premium account related to ordinary share capital	**250,000**	250,000			
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type Undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	**1,048,543**	1,048,543			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	Total basic own funds after deductions	**1,879,308**	**1,879,308**			
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members – calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	**1,879,308**	**1,879,308**			
R0510	Total available own funds to meet the MCR	**1,879,308**	**1,879,308**			
R0540	Total eligible own funds to meet the SCR	**1,879,308**	**1,879,308**			
R0550	Total eligible own funds to meet the MCR	**1,879,308**	**1,879,308**			
R0580	**SCR**	**1,103,236**				
R0600	**MCR**	**496,456**				
R0620	**Ratio of Eligible own funds to SCR**	**1.7035**				
R0640	**Ratio of Eligible own funds to MCR**	**3.7854**				

S.23.01.01 – Own funds (continued) (£'000)

		Total
		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	1,879,308
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	830,765
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	
R0760	**Reconciliation reserve**	**1,048,543**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	245,037
R0790	**Total expected profits included in future premiums (EPIFP)**	**245,037**

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

G.3 U K INSURANCE LIMITED continued

S.25.03.21 –Solvency Capital Requirement – for undertakings on full internal models (£'000)

Unique number of component	Components description	Calculation of Solvency Capital Requirement
C0010	C0020	C0030
103011	Other interest rate risk – interest rate risk (assets)	(81,635)
103021	Other interest rate risk – interest rate risk (liabilities)	351,952
103991	Diversification within other interest rate risk	(260,903)
104001	Equity risk	
106001	Property risk	45,478
107011	Spread risk	262,246
107021	Credit risk (asset)	71,583
107991	Diversification within spread and credit risk (asset)	(63,011)
108001	Concentration risk	
109001	Currency risk	
199001	Diversification within market risk	(154,554)
203001	Other counterparty risk	72,592
501001	Premium risk	578,523
502001	Reserve risk	595,841
503001	Non-life catastrophe risk	361,037
599001	Diversification within non-life underwriting risk	(448,604)
701001	Operational risk	303,629
801001	Other risks	28,823
803001	Loss-absorbing capacity of deferred tax	
804001	Other adjustments	

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	1,662,997
R0060	Diversification	(559,761)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**1,103,236**
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	**1,103,236**
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	
	Calculation of loss absorbing capacity of deferred taxes	C0130
R0640	Amount/estimate of LAC DT	
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	
R0670	Amount/estimate of LAC DT justified by carry back, current year	
R0680	Amount/estimate of LAC DT justified by carry back, future years	
R0680	Amount/estimate of Maximum LAC DT	

S.28.01.01 – Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity (£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} result	589,789

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance	3,639	3,565
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance	2,206,370	1,121,226
R0060	Other motor insurance and proportional reinsurance	74,611	755,212
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance	769,454	848,818
R0090	General liability insurance and proportional reinsurance	98,745	111,417
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance	41,487	63,666
R0120	Assistance and proportional reinsurance	110,871	302,462
R0130	Miscellaneous financial loss insurance and proportional reinsurance	29,989	100,660
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

Linear formula component for non-life insurance and reinsurance

		C0040
R0200	MCR_{L} result	7,131

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	339,577	
R0250	Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

		C0070
R0300	Linear MCR	596,920
R0310	SCR	1,103,236
R0320	MCR cap	496,456
R0330	MCR floor	275,809
R0340	Combined MCR	496,456
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	**496,456**

G.4 CHURCHILL INSURANCE COMPANY LIMITED

General information

Undertaking name	**Churchill Insurance Company Limited**
Undertaking identification code	2138007B4PLYNW611O59
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: – Motor vehicle liability insurance – Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 Balance sheet
S.05.01.02 Premiums, claims and expenses by line of business
S.05.02.01 Premiums, claims and expenses by country
S.12.01.02 Life and health SLT technical provisions
S.17.01.02 Non-life technical provisions
S.19.01.21 Non-life insurance claims
S.22.01.21 Impact of long-term guarantees and transitional measures
S.23.01.01 Own funds
S.25.01.21 Solvency capital requirement – for undertakings on standard formula
S.28.01.01 Minimum capital requirement – only life or only non-life insurance or reinsurance activity

G.4 CHURCHILL INSURANCE COMPANY LIMITED continued

S.02.01.02 – Balance sheet

(£'000)

		Solvency II value
		C0010
	Assets	
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	307
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**19,540**
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	
R0140	Government bonds	
R0150	Corporate bonds	
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	19,540
R0190	Derivatives	
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	**28,665**
R0280	Non-life and health similar to non-life	
R0290	Non-life excluding health	
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	**28,665**
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	28,665
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	473
R0380	Receivables (trade, not insurance)	204
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	22
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	**49,211**

S.02.01.02 – Balance sheet (continued)

(£'000)

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	
R0520	Technical provisions – non-life (excluding health)	
R0530	TP calculated as a whole	
R0540	Best estimate	
R0550	Risk margin	
R0560	Technical provisions – health (similar to non-life)	
R0570	TP calculated as a whole	
R0580	Best estimate	
R0590	Risk margin	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**34,928**
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	**34,928**
R0660	TP calculated as a whole	
R0670	Best estimate	34,832
R0680	Risk margin	96
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	739
R0820	Insurance and intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**35,667**
R1000	**Excess of assets over liabilities**	**13,544**

S.05.01.02 – Premiums, claims and expenses by line of business Non-life (£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								Total
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0020	C0040	C0050	C0070	C0080	C0100	C0110	C0120	**C0200**
	Premiums written									
R0110	Gross – direct business									
R0120	Gross – proportional reinsurance accepted									
R0130	Gross – non-proportional reinsurance accepted									
R0140	Reinsurers' share									
R0200	Net									
	Premiums earned									
R0210	Gross – direct business									
R0220	Gross – proportional reinsurance accepted									
R0230	Gross – non-proportional reinsurance accepted									
R0240	Reinsurers' share									
R0300	Net									
	Claims incurred									
R0310	Gross – direct business									
R0320	Gross – proportional reinsurance accepted									
R0330	Gross – non-proportional reinsurance accepted									
R0340	Reinsurers' share									
R0400	Net									
	Changes in other technical provisions									
R0410	Gross – direct business									
R0420	Gross – proportional reinsurance accepted									
R0430	Gross – non-proportional reinsurance accepted									
R0440	Reinsurers' share									
R0500	Net									
R0550	**Expenses incurred**									
R1200	Other expenses									
R1300	**Total expenses**									

S.05.01.02 – Premiums, claims and expenses by line of business (continued)
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Gross – reinsurers share		
R1450	Net		
	Premiums earned		
R1510	Gross		
R1520	Gross – reinsurers share		
R1600	Net		
	Claims incurred		
R1610	Gross	1,412	**1,412**
R1620	Gross – reinsurers share	1,966	**1,966**
R1700	Net	**(554)**	**(554)**
	Changes in other technical provisions		
R1710	Gross		
R1720	Gross – reinsurers share		
R1800	Net		
R1900	**Expenses incurred**		
R2500	Other expenses		
R2600	**Total expenses**		

S.05.02.01 – Premiums, claims and expenses by country Non-life (£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business			
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share			
R0200	Net			
	Premiums earned			
R0210	Gross – direct business			
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share			
R0300	Net			
	Claims incurred			
R0310	Gross – direct business			
R0320	Gross – proportional reinsurance accepted			
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share			
R0400	Net			
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	**Expenses incurred**			
R1200	Other expenses			
R1300	**Total expenses**			

S.05.02.01 – Premiums, claims and expenses by country (continued)
Life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	**Total top 5 and home country**
			IRL	
		C0220	C0230	C0280
	Premiums written			
R0110	Gross – direct business			
R1420	Reinsurers' share			
R1450	Net			
	Premiums earned			
R1510	Gross – direct business			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross – direct business	1,412		**1,412**
R1620	Reinsurers' share	1,966		**1,966**
R1700	Net	**(554)**		**(554)**
	Changes in other technical provisions			
R1710	Gross – direct business			
R1720	Reinsurers' share			
R1800	Net			
R1900	**Expenses incurred**			
R2500	Other expenses			
R2600	**Total expenses**			

S.12.01.02 – Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	**Total (life other than health insurance, including unit-linked)**
		C0090	C0150
R0010	**Technical provisions calculated as a whole**		
R0020	**Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole**		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	**Gross best estimate**	**34,832**	**34,832**
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	28,665	28,665
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	6,167	6,167
R0100	**Risk margin**	**96**	**96**
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	Technical provisions - total	**34,928**	**34,928**

S.17.01.02 – Non-life technical provisions (£'000)

		Direct business and accepted proportional reinsurance – Motor vehicle liability insurance	Total non-life obligation
		C0050	C0180
R0010	**Technical provisions calculated as a whole**		
R0050	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premiums provisions		
R0060	Gross		
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		
R0150	Net best estimate of premium provisions		
	Claims provisions		
R0160	Gross		
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		
R0250	Net best estimate of premium provisions		
R0260	**Total best estimate - gross**		
R0270	**Total best estimate - net**		
R0280	**Risk margin**		
	Amount of the transitional on technical provisions		
R0290	Technical provisions calculated as a whole		
R0300	Best estimate		
R0310	Risk margin		
	Technical provisions - total		
R0320	Technical provisions - total		
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total		

G.4 CHURCHILL INSURANCE COMPANY LIMITED continued

19.01.21 - Non-life insurance claims

(£'000)

Z0020 **Accident year / underwriting year** | **Accident year**

Gross claims paid (non-cumulative)
(absolute amount)

		Development year												
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**In current year**	**Sum of years (cumulative)**
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**													
R0160	**N-9**													
R0170	**N-8**													
R0180	**N-7**													
R0190	**N-6**													
R0200	**N-5**													
R0210	**N-4**													
R0220	**N-3**													
R0230	**N-2**													
R0240	**N-1**													
R0250	**N**													
R0260														

Gross undiscounted best estimate claims provisions
(absolute amount)

		Development year											
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**Year end (discounted) data**
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	**Prior**												
R0160	**N-9**												
R0170	**N-8**												
R0180	**N-7**												
R0190	**N-6**												
R0200	**N-5**												
R0210	**N-4**												
R0220	**N-3**												
R0230	**N-2**												
R0240	**N-1**												
R0250	**N**												
R0260													

S.22.01.21

Impact of long-term guarantees and transitional measures (£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical Provisions	34,928			2,727	
R0020	Basic Own Funds	13,544			(313)	
R0050	Eligible Own funds to meet the Solvency Capital requirement	13,489			(418)	
R0090	Solvency Capital Requirement	1,679			133	
R0100	Eligible Own funds to meet the Minimum Capital requirement	13,237			(670)	
R0110	Minimum Capital Requirement	3,495				

S.23.01.01 – Own funds (£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type Undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	**13,237**	13,237			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets	**307**				307
R0180	Other items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	Total basic own funds after deductions	**13,544**	**13,237**			**307**
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members – calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	**13,544**	**13,237**			**307**
R0510	Total available own funds to meet the MCR	**13,237**	**13,237**			
R0540	Total eligible own funds to meet the SCR	**13,489**	**13,237**			**252**
R0550	Total eligible own funds to meet the MCR	**13,237**	**13,237**			
R0580	**SCR**	**1,679**				
R0600	**MCR**	**3,495**				
R0620	**Ratio of Eligible own funds to SCR**	**8.0339**				
R0640	**Ratio of Eligible own funds to MCR**	**3.7874**				

S.23.01.01 – Own funds (continued) (£'000)

		Total
		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	13,544
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	307
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	
R0760	**Reconciliation reserve**	**13,237**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	
R0790	**Total expected profits included in future premiums (EPIFP)**	

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.01.21 – Solvency Capital Requirement – for undertakings on standard formula (£000)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
R0010	Market risk	1,215		
R0020	Counterparty default risk	517		
R0030	Life underwriting risk	235	None	
R0040	Health underwriting risk		None	
R0050	Non-life underwriting risk		None	
R0060	Diversification	(445)		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	**1,522**		

		Value
	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	157
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**1,679**
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	**1,679**
	Other information on SCR	
R0400	**Capital requirement for duration-based equity risk sub-module.**	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

		Value
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	

		LAC DT
	Calculation of loss absorbing capacity of deferred taxes	C0130
R0640	**Amount/estimate of LAC DT**	
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	
R0670	Amount/estimate of LAC DT justified by carry back, current year	
R0680	Amount/estimate of LAC DT justified by carry back, future years	
R0680	Amount/estimate of Maximum LAC DT	

G.4 CHURCHILL INSURANCE COMPANY LIMITED continued

S.28.01.01 – Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity (£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} result	

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

Linear formula component for non-life insurance and reinsurance

		C0040
R0200	MCR_L result	130

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	6,167	
R0250	Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

		C0070
R0300	Linear MCR	130
R0310	SCR	1,679
R0320	MCR cap	755
R0330	MCR floor	419
R0340	Combined MCR	419
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	**3,495**