

Chair's statement

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

Danuta Gray
Chair of the Board



Navigating a challenging year

Dear Shareholders,

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

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

Dividend and capital management

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

However, against a background of heightened inflation in the UK motor insurance market throughout 2022 and the year's severe weather events, the Board took the decisions respectively in July not to launch the second £50 million

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

Board and leadership

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

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

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

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

Customers

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

People, Diversity and Inclusion

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

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

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

Planet

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

Conclusion

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



Danuta Gray
Chair of the Board