Direct Line Group

Annual Report and Accounts 2022

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

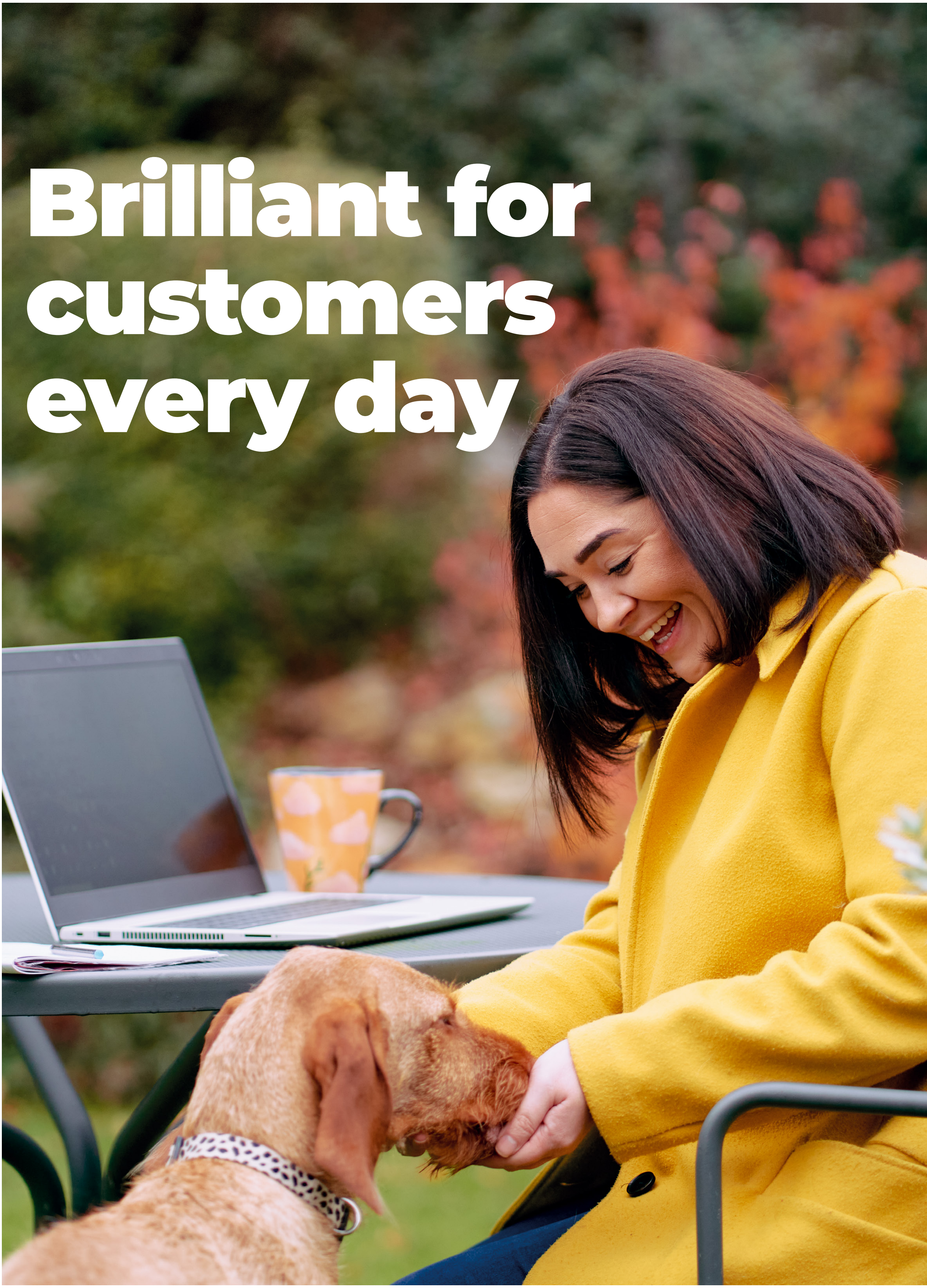
Our mission is to be brilliant for customers every day.

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

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

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

Brilliant for customers every day



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

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

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

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

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

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

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

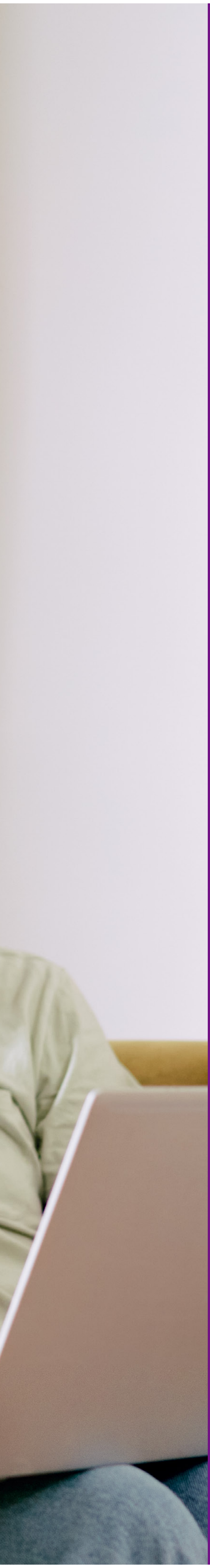
See more on page 54

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

Find out more on page 41

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

Powerful brands



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

Our brands

Direct Line

churchill

Darwin

Privilege

ONLY THE BEST GET THE GREEN FLAG

NIG

DLG PARTNERSHIPS

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

See page 67

We launched a new Churchill Essentials product for motor customers

Find out more on page 53

Reaching customers however it suits them

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

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

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

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

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

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

Find out more on page 46

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

Page 43 for more detail

We're a force for good

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

Sustainability pillars

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

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

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

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

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

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

See more on pages 62 to 63

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

Find out more on page 66

Strategy

Mission

To be brilliant for customers every day

Vision

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

Purpose

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

Our strategic objectives

Best at direct

Win on price comparison websites

Extend our reach

Nimble and cost efficient

Technical edge

Great people

Our core strengths and capabilities drive our strategy

Growth opportunities

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

Enhanced capability

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

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

Core strengths

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

We provide customers with a claims experience that combines leading capabilities and repair expertise which uses our network of 22 accident repair centres, the largest network of any insurer.

Our values

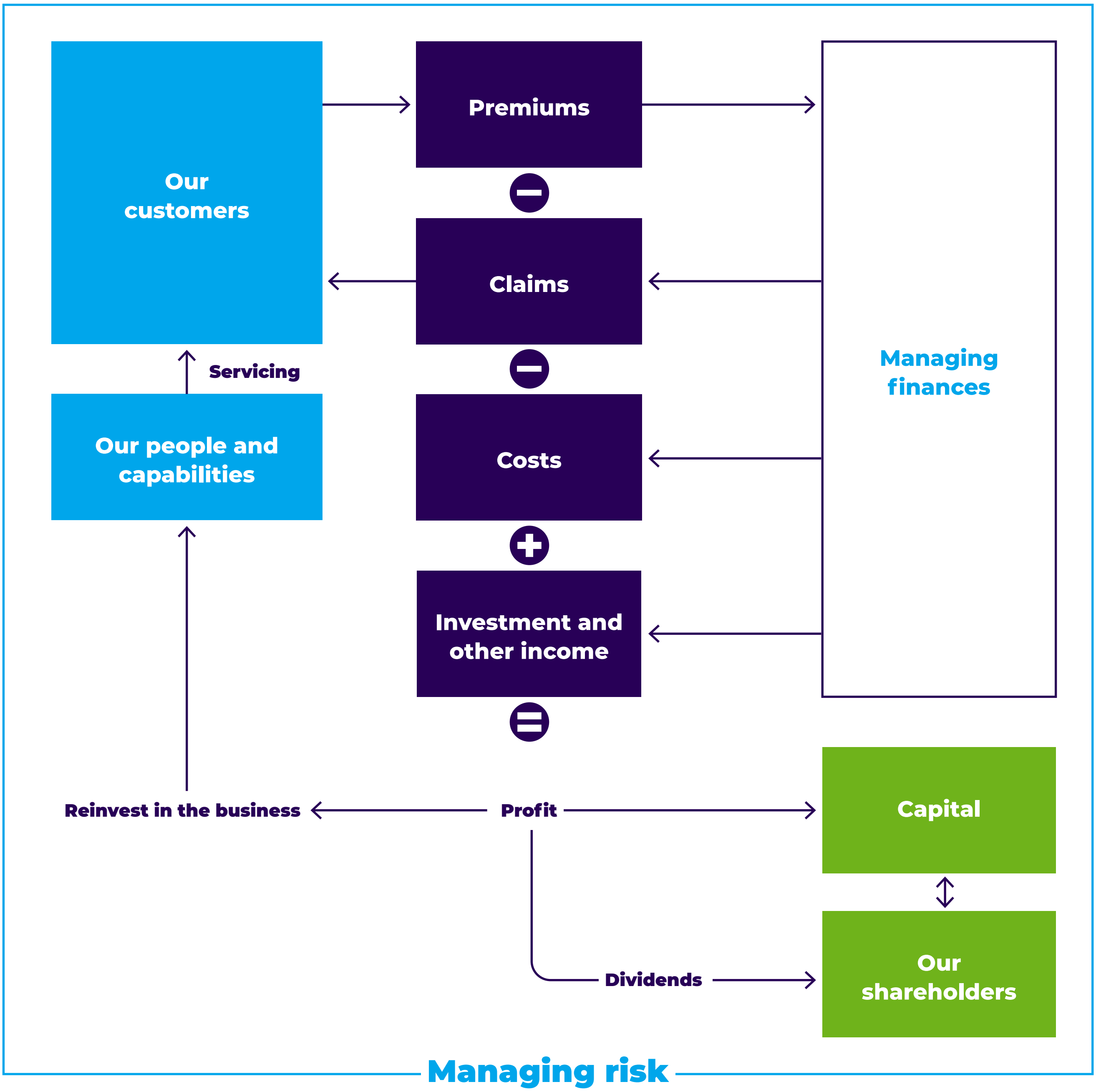
Do the right thing	Aim higher	Take ownership	Say it like it is	Work together	Bring all of yourself to work

Our brands

Direct Line
churchill
Darwin.
Privilege.
ONLY THE BEST GET THE GREEN FLAG
NIG
DLG PARTNERSHIPS

Business model

Delivering for all our stakeholders



How we create value

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

Diversified model

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

Balanced investment portfolio

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

See page 33 for more information.

Accident repair centres

We own 22 accident repair centres, the largest network of any insurer, delivering lower repair costs and providing data-led insights, enabling us to react to emerging trends and helping inform pricing.

Claims management

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

Cost control

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

Capital management

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

Chair's statement

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

Danuta Gray

Chair of the Board

Navigating a challenging year

Dear Shareholders,

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

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

Dividend and capital management

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

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

Board and leadership

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

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

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

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

Customers

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

People, Diversity and Inclusion

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

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

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

Planet

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

Conclusion

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

Danuta Gray
Chair of the Board

Section 172(1) statement

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

Purpose and Vision

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

Stakeholders

Information on Direct Line's key stakeholders is set out in the Sustainability section of the Strategic report on the following pages: Customers, 52 to 54; People, 55 to 59; Society, 60 to 63; and the Planet, 64 to 70.

Engagement

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

Board decisions and oversight

Examples of how stakeholder engagement and Section 172(1) matters have influenced Board discussion and decision making during the year can be found in the table titled "Consideration of Section 172(1) factors by the Board" on pages 105 to 106. The table covers a number of key topics including: the return of capital to shareholders; Consumer Duty implementation; the cost of living crisis; the relocation of the London Hub; and Science-Based Target setting. The metrics and processes which the Board looks at to ensure that business practices and behaviours reflect the Company's culture, purpose and values, including the impact of decisions on key stakeholders, are set out on page 103. Information about Board oversight of environmental matters can be found on pages 72 to 73 in the TCFD Report.

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

Section 172(1) factor	**Relevant disclosures**
the likely consequences of any decision in the long-term	Brilliant for our customers every day (pages 1 to 9) Mission, vision, purpose and strategic objectives (page 10) Consideration of Section 172(1) factors by the Board (pages 105 to 106)
the interests of the company's employees	Key performance indicators – Colleague engagement scores (page 23) Outcome of employee engagement (page 56) Diversity and Inclusion (pages 57 to 59) How the Board engages with stakeholders (page 107) Employee Representative Body (page 108)
the need to foster the company's business relationships with suppliers, customers and others	Key performance indicators – NPS and customer complaints metrics (page 23) Customer support (page 53) Supply Chain (page 80) How the Board engages with stakeholders (page 107)
the impact of the company's operations on the community and the environment	Community Fund 2022 (page 62) Science-Based Targets (page 66) External ratings, memberships and benchmarks (page 71) TCFD disclosures (pages 72 to 85) How the Board engages with stakeholders (page 107) Sustainability Committee Report (pages 126 to 127)
the desirability of the company maintaining a reputation for high standards of business conduct	Our values (page 11) The role of the Board in the Company's culture (page 103) Internal controls (pages 114 to 115)
the need to act fairly between members of the company	Capital management (page 19) How the Board engages with stakeholders (page 107) Shareholder voting rights (page 163) Annual General Meeting (page 249)

CEO's review

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

Jon Greenwood
Acting Chief Executive Officer

Looking ahead to 2023

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

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

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

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

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

Improving performance in Motor

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

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

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

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

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

Restoring the resilience of our balance sheet

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

Reinsurance

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

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

Portfolio actions

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

Investment portfolio

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

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

Organic capital generation

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

Continuing to deliver for customers

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

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

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

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

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

Business performance

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

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

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

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

Weather

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

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

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

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

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

Capital management

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

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

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

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

Outlook

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

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

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

Jon Greenwood
Acting Chief Executive Officer

Market overview

Motor premium and claims inflation

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

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

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

Financial Conduct Authority Pricing Practices Review

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

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

Consumer trends

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

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

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

Climate change

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

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

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

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

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

Whiplash reform developments

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

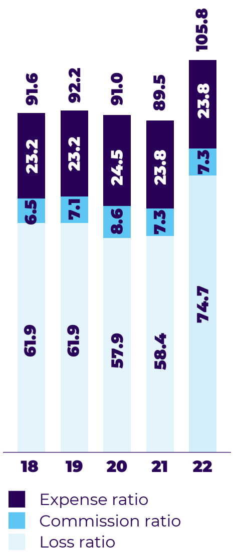
A recent Court of Appeal judgment has endorsed a valuation methodology that differs from the original reforms and is expected to increase the tariff awarded to non-whiplash related injuries. As a result, the costs of motor personal injuries could increase more than previously anticipated. The Group is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

Solvency II reforms

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

Our key performance indicators

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



Definition

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

Aim

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

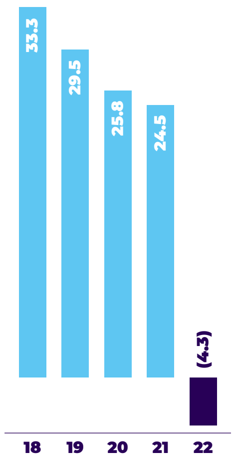
For additional performance information see page 26

Remuneration

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

For additional performance information see pages 131 and 138

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



Definition

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

Aim

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

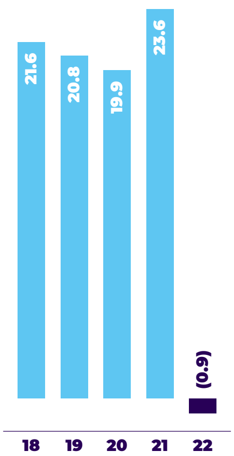
For additional performance information see page 29

Remuneration

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

For additional performance information see pages 131 and 138

Return on tangible equity[1] (%)



Definition

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

Aim

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

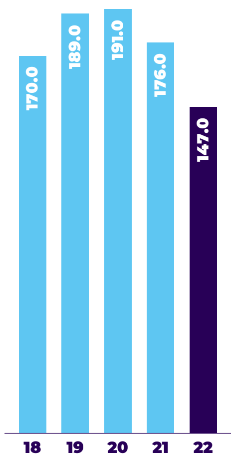
For additional performance information see page 29

Remuneration

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

For additional performance information see pages 131 and 140

Solvency capital ratio[3,4] (%)



Definition

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

Aim

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

For additional performance information see page 30

Remuneration

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

For additional performance information see pages 131 and 140

Notes:

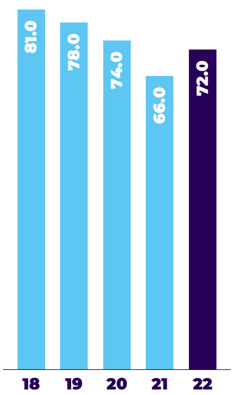
1. See glossary on pages 251 to 253 and Appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. The 2022 combined operating ratio is for ongoing operations (see footnote 1 on page 25). 2021 has been restated accordingly (reported as 90.1% in the 2021 Annual Report and Accounts).
3. The 2019 solvency capital ratio has been adjusted to remove the cancelled 14.4p final dividend and £120 million of the share buyback as announced in March/April 2020. (The reported number was a solvency capital ratio of 165%).
4. Estimates based on the Group's Solvency II partial internal model.

Changes to our KPIs in 2022

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

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

Colleague engagement[5] (%)



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

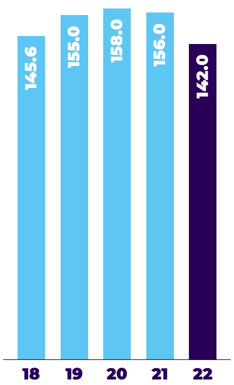
Aim
To make the Group best for our customers and best for our colleagues. We gauge employee engagement through our colleague opinion surveys and we aim for high colleague engagement scores each year.

For additional performance information see page 56

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

For additional performance information see pages 131 and 139

Net Promoter Score[6] (points)



Definition
Net Promoter Score ("**NPS**") is an index that measures the willingness of customers to recommend products or services to others. It is used to gauge customers' overall experience with a product or service, and customers' loyalty to a brand.

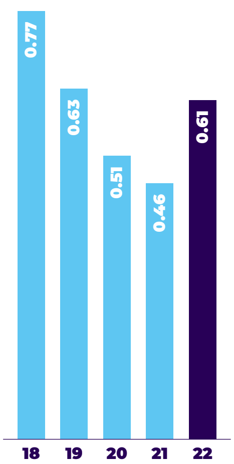
Aim
We aim to increase our NPS over time.

For additional performance information see page 53

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

For additional performance information see pages 131 and 139

Customer complaints[7] (%)



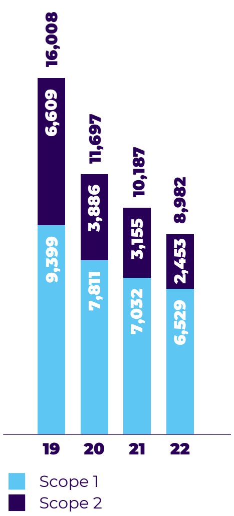
Definition
The number of complaints we received during the year as a proportion of the average number of in-force policies.

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

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

For additional performance information see page 131 and 139

Operational emissions (tCO_2e)



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

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

For additional performance information see pages 66 and 69

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

For additional performance information see pages 131 and 141

5. The methodology for determining colleague engagement changed in 2022 as a result of a change of survey provider. Engagement scores for the years 2018 to 2021 are presented on a consistent basis. The 2022 score was assessed against a benchmark score of 75% and is not directly comparable to the scores in 2021 and prior years.
6. Direct Line brand. On an aggregated 12-month rolling basis, with 2013 rebased to 100.
7. For the Group's principal underwriter, U K Insurance Limited.

CFO review

Neil Manser
Chief Financial Officer

Financial summary

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

Group financial performance

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

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

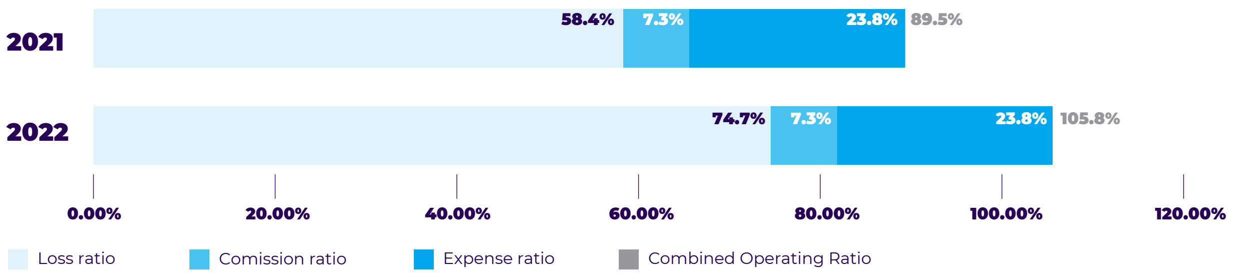
Notes:
1. Ongoing operations and run-off partnerships – See glossary on pages 251 to 253 for definitions and appendix A – Alternative performance measures on pages 254 to 257 for reconciliation to financial statement line items.
2. Direct own brands include in-force policies for Home and Motor under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

Group financial performance[1]

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

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

Combined operating ratio



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

Ongoing operations and run-off partnerships

The Group has exited, or has initiated termination of three partnerships which will reduce its exposure to low margin packaged bank accounts so it can redeploy capital to higher return segments. The run-off partnerships relate to a Rescue partnership with NatWest Group that expired in December 2022 and Travel partnerships with NatWest Group and Nationwide Building Society which expire in 2024, and which the Group has indicated to the partner that it will not be seeking to renew.

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

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

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

Underwriting result[1]

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

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

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

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

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

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

Instalment and other operating income[1]

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

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

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

Investment return[1]

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

Investment yields

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

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

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

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

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

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

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

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

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

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

Restructuring and one-off costs

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

Finance costs

Finance costs fell to £20.4 million (2021: £34.3 million) primarily as interest payments reduced following the redemption of the Group's £250 million 9.25% Tier 2 subordinated notes on 27 April 2022.

Effective corporation tax rate

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

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

Return on tangible equity[4]

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

(Loss)/earnings per share

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

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

Cash flow

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

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

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

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

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

The £800.2 million the Group generated from operating activities more than offset net cash used in financing and investing activities and resulted in a net increase in cash and cash equivalents of £41.9 million (2021: £271.7 million reduction) to £938.4 million (2021: £896.5 million). The levels of cash and other highly liquid sources of funding that the Group holds to cover its claims obligations are continually monitored with the objective of ensuring that the levels remain within the Group's risk appetite.

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

Balance sheet management

Capital management and dividend policy

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

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

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

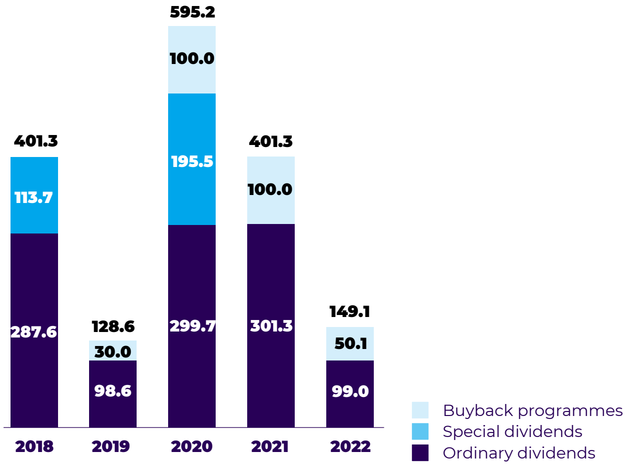
In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

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

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

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

Capital returns (£m)



Capital analysis

The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2022.

Capital position

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

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

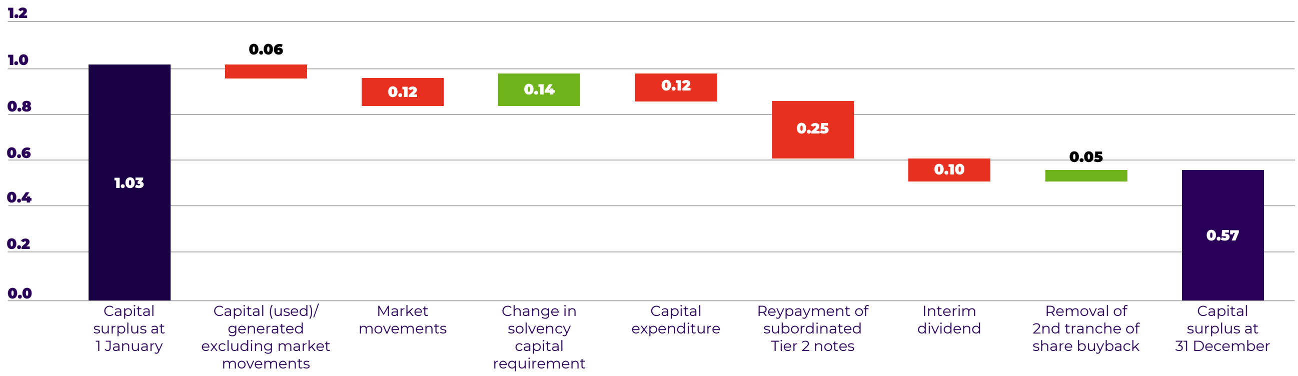
Note:
1. Adjusted solvency capital ratio excluding Tier 2 debt which was redeemed on 27 April 2022.

Change in solvency capital requirement

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

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

Movement in capital surplus (£bn)



Movement in capital surplus

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

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

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

Scenario and sensitivity analysis[1]

The following table shows the impact on the Group's estimated solvency capital ratio in the event of the following scenarios as at 31 December 2022. The impacts on the Group's solvency capital ratio arise from movements in both the Group's SCR and own funds.

	Impact on solvency capital ratio[1]	
Scenario	31 Dec 2022	31 Dec 2021[2]
Deterioration of small bodily injury motor claims equivalent to that experienced in 2008/09	**(5pts)**	(5pts)
One-off catastrophe loss equivalent to the 1990 storm "Daria"	**(10pts)**	(9pts)
One-off catastrophe loss based on extensive flooding of the River Thames	**(10pts)**	(9pts)
Increase in Solvency II inflation assumption for PPOs by 100 basis points[3]	**(10pts)**	(9pts)
100bps increase in credit spreads[4]	**(5pts)**	(8pts)
100bps decrease in interest rates with no change in the PPO real discount rate	**1pt**	(2pts)

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

Own funds

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

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

Notes:

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

During 2022, the Group's eligible own funds reduced from £2.38 billion to £1.78 billion. Eligible Tier 1 capital after foreseeable distributions represents 75% of own funds and 111% of the estimated SCR. Tier 2 capital relates to the Group's £0.21 billion subordinated debt and £0.05 billion of ineligible Tier 1 capital. The maximum amount of Restricted Tier 1 capital permitted as a proportion of total Tier 1 capital under the Solvency II regulations is 20%. Restricted Tier 1 capital relates solely to the Tier 1 notes issued in 2017.

The amount of Tier 2 and Tier 3 capital permitted under the Solvency II regulations is 50% of the Group's SCR and the amount of Tier 3 alone is 15% of the Group's SCR. The Group has Tier 3 ineligible own funds of £0.03 billion.

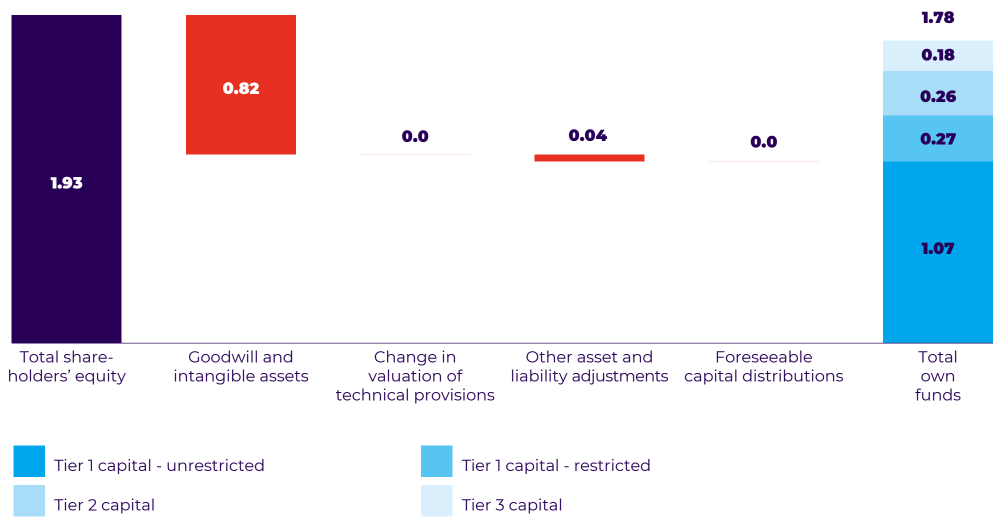
Reconciliation of IFRS shareholders' equity to Solvency II eligible own funds

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

Notes:

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

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



Investment portfolio

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

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

Asset and liability management

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

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

Asset allocation and benchmarks – UK Insurance Limited

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

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

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

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

Investment holdings and yields

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

Notes:
1. Asset allocation at 31 December 2022 includes investment portfolio derivatives, which have a mark-to-market asset value of £1.6 million which is split as an asset of £2.5 million included in investment grade credit and a liability of £0.9 million included in sovereign debt (31 December 2021: mark-to-market asset value of £14.2 million and £0.1 million respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
2. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
3. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

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

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

Net asset value

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

Note:

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

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

Leverage

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

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

Note:

1. Total IFRS financial debt and Tier 1 notes as a percentage of total IFRS capital employed.

Credit ratings

Moody's Investors Service provides insurance financial-strength ratings for U K Insurance Limited, our principal underwriter. Moody's rate U K Insurance Limited as 'A1' for insurance financial strength (strong) with a negative outlook.

Reserving

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

We seek to adopt a prudent approach to assessing liabilities, as evidenced by the favourable development of historical claims reserves. Reserves are based on management's best estimate, which includes a prudence margin that exceeds the internal actuarial best estimate. This margin is set by reference to various actuarial scenario assessments and reserve distribution percentiles. It also considers other short- and long-term risks not reflected in the actuarial inputs, as well as management's view on the uncertainties in relation to the actuarial best estimate.

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

We reserve our large bodily injury claims at the relevant discount rate for each jurisdiction, with the overwhelming majority now case reserved at minus 0.25% as most will be settled under the law of England and Wales. The Ogden discount rate will be reviewed again at the latest in 2024. There has been an ongoing reduction in large bodily injury exposures as a result of continued positive prior-year development of claims reserves, and a higher proportion of reserves being covered by reinsurance for the 2014 to 2020 underwriting years. Since 2021, we have reduced the level of Motor reinsurance purchased, resulting in higher net reserves for accident years 2021 and 2022. The 2023 Motor excess of loss ("**XoL**") reinsurance contract is in line with the 2022 Motor treaty, resulting in a similarly higher net retention for accident year 2023.

If the claimant prefers, large bodily injury claims can be settled using a PPO. This is an alternative way to provide an indemnity for recurring costs, making regular payments, usually for the rest of the claimant's life. These claims are reserved for using an internal discount rate, which is progressively unwound over time. As it is likely to take time to establish whether a claimant will prefer a PPO or a lump sum, until a settlement method is agreed we make assumptions about the likelihood that claimants will opt for a PPO. This is known as the PPO propensity. In 2022, the Group reviewed the estimates used to discount PPOs. Given the significant changes both in the current economic environment and the longer term outlook, the Group changed from flat rate inflation and discounting assumption to a yield curve approach, allowing for an increase in short-term inflation and higher long-term real returns. This resulted overall in the application of a real discount rate of 0.9% (2021: 0.0%), the combination of cash flow weighted inflation and discounting of 4.2% and 5.1% respectively, the latter driven by an expected increase in the long-term yield of the assets backing PPO liabilities.

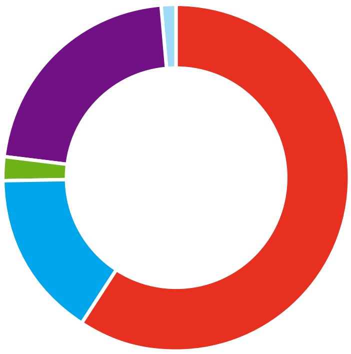
Higher claims inflation remains a risk, given the continuing high level of consumer prices and wage inflation. In 2022, consumer prices inflation was at its highest level for the past decade and is not expected to normalise until 2024. Pressure is likely to remain strong on wages, with potential implications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

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

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

Claims reserves net of reinsurance 2022 (£m)

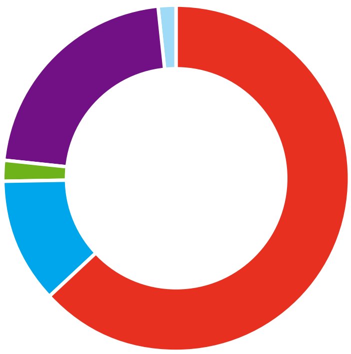
£2,608.2m



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

Claims reserves net of reinsurance 2021 (£m)

£2,548.4m



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

Note:

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

Reinsurance

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

- Catastrophe reinsurance to protect against an accumulation of claims arising from a natural perils event. The retained deductible is £150 million and cover is placed annually on 1 July up to a modelled 1-in-200 year loss event of £1,350 million.
- Motor reinsurance to protect against a single large claim or an accumulation of large claims which renews on 1 January. The retained deductible is set at an indexed level of £5 million per claim up to a level of £10m and the protection above £10m is subject to an additional aggregate retention of £37.50m. This programme was renewed on 1 January 2023.
- Commercial property risk reinsurance to protect against large individual claims with a retained deductible of £4.0 million. The contract is subject to an aggregate deductible of £2.0 million and renews annually on 1 July.
- Whole account quota share reinsurance with a 10% cession, ceded on a funds-withheld basis entered into from 1 January 2023.

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

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

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

Notes:
1. These sensitivities are net of reinsurance and exclude the impact of taxation.
2. These sensitivities reflect one-off impacts at the balance sheet date and should not be interpreted as predictions.
3. The sensitivities relating to an increase or decrease in the real discount rate used for PPOs illustrate a movement in the time value of money from the assumed level of 0.9% for reserving. The PPO sensitivity has been calculated on the direct impact of the change in the real internal discount rate with all other factors remaining unchanged.
4. Ogden discount rate sensitivity has been calculated on the direct impact of a permanent change in the discount rate in England and Wales with all other factors remaining unchanged. The Group will consider the statutory discount rate when setting the reserves but not necessarily provide on this basis. This is intended to ensure that reserves are appropriate for current and potential future developments.
5. We have updated this sensitivity, across 2021 and 2022, to a 200 basis point increase/decrease in inflation in acknowledgment of the current uncertain economic environment.

The PPO sensitivity above is calculated on the basis of a change in the internal discount rate used for the actuarial best estimate reserves as at 31 December 2022. It does not take into account any second order impacts such as changes in PPO propensity or reinsurance bad debt assumptions.

Tax management

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

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

Tax authorities

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

Tax policy and governance

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

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

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

Total tax contribution

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

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

Total taxes borne

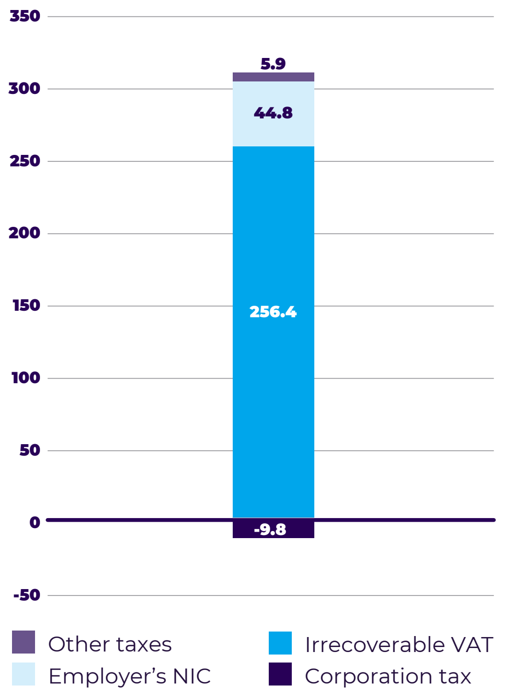
At 31 December	2022 £m
Current-year Corporation Tax credit	**(9.8)**
Irrecoverable Value Added Tax incurred on overheads	**79.9**
Irrecoverable Value Added Tax embedded within claims spend	**176.5**
Employers' National Insurance contributions	**44.8**
Other taxes	**5.9**
Total	**297.3**

Total taxes collected

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

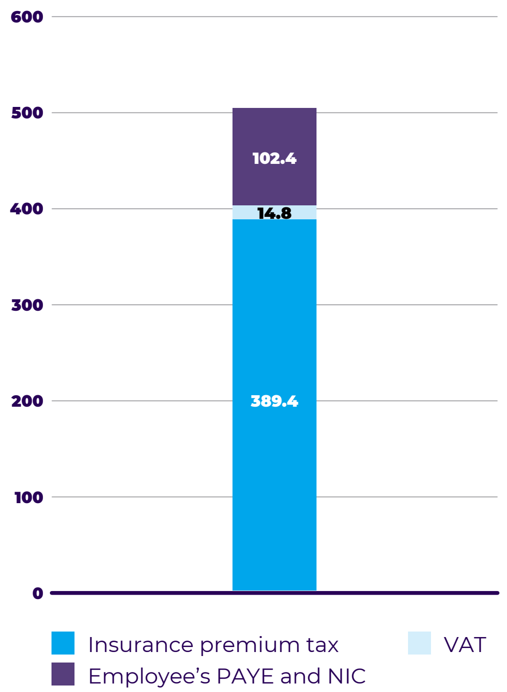
Total taxes borne by tax type (£m)

£297.3m



Total taxes collected by tax type (£m)

£506.6m



Neil Manser
Chief Financial Officer

Operating review

Motor

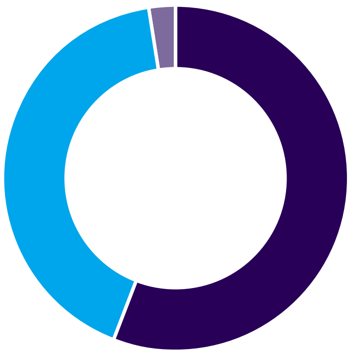
Motor: performance summary

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

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

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

Gross written premium by channel



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

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

Market overview

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

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

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

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

Performance

In-force policies and gross written premium

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

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

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

Motability Operations: Delivering an exceptional claims service

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

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

Underwriting

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

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

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

Combined operating ratio and (loss)/profit

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

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

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

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

Home

Home: performance summary

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

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

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

Gross written premium by channel

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

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

Market overview

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

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

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

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

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

Performance

In-force policies and gross written premium

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

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

NatWest Group: Home contract extension

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

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

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

Underwriting

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

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

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

Combined operating ratios and (loss)/profit

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

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

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

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

Rescue and other personal lines

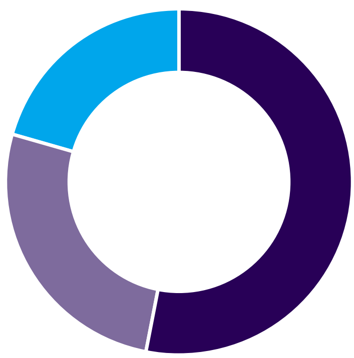
Rescue and other personal lines: performance summary[1]

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

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

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

Adjusted gross written premium by product[1,2]



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

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

Market overview

Rescue

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

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

Other personal lines

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

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

Performance

In-force policies and gross written premium

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

Rescue

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

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

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

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

Other personal lines

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

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

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

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

Combined operating ratios and profit

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

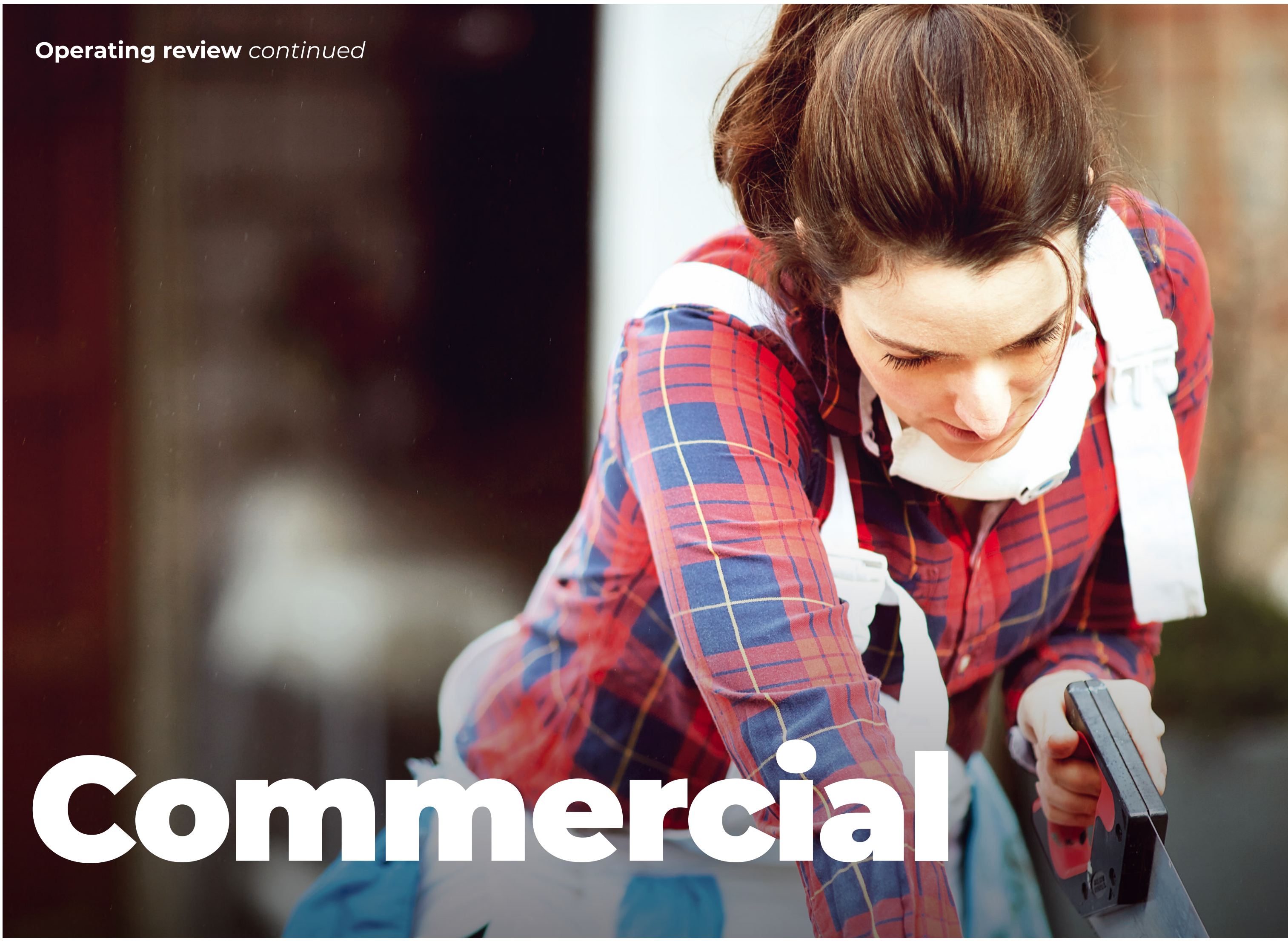
Green Flag: Disrupting the rescue market

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

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

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

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



Commercial

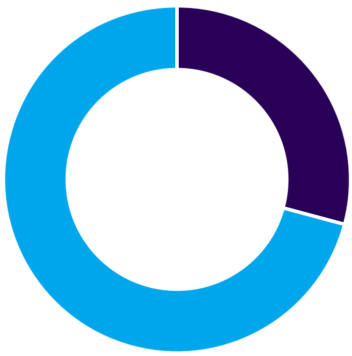
Commercial: performance summary

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

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

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

Gross written premium by channel



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

Market overview

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

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

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

Performance

In-force policies and gross written premium

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

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

Commercial growth

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

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

Underwriting

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

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

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

Combined operating ratios and profit

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

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

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

Run-off partnerships[1]

In our H1 2022 results we disclosed that we planned to reduce our exposure to packaged bank accounts where they do not meet target levels of return and are no longer required for operational scale, in order to improve our capital efficiency. During the second half of the year, we have decided to exit all such partnerships and are presenting the results for this business as a separate segment.

Rescue packaged accounts

Our contract with NatWest Group ended in December 2022 and is due to run off by the end of 2023, albeit that claims may run off over a longer period. This partnership represented around 1.1 million in-force policies.

Travel packaged accounts

Our partnerships with NatWest Group and Nationwide Building Society are due to expire in 2024 and are expected to run off in early 2025. Together, these travel partnerships represent around 2.2 million in-force policies.

Underwriting

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

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

Notes:

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

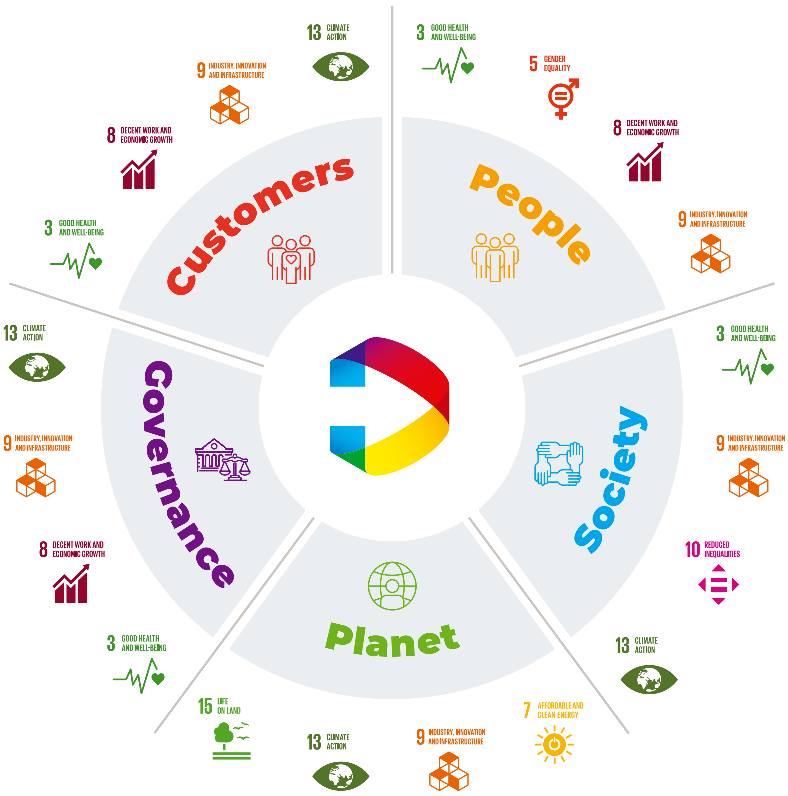
Non-financial information statement

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

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

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

Building a sustainable future



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

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

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

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

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

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

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

Customers

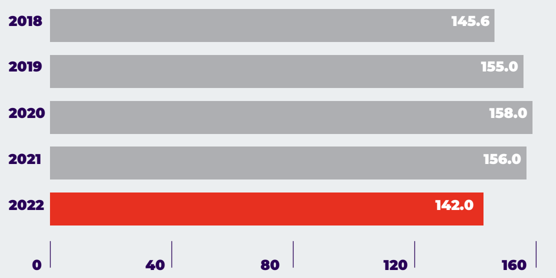
Our mission is to earn our customers' trust by demonstrating how we are acting in their interests

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

Net Promoter Score

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

Net Promoter Score[2] – Direct Line Brand



Churchill Essentials product

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

Customer support

Helping our customers during the cost of living crisis

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

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

Vulnerable customer training nomination

More than

5,000

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

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

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

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

Bhanu Shekar Gutta, Software Engineer

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

Brilliant for customers every day

Improving the claims experience for customers

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

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

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

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

Helping our vulnerable customers

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

Plain Numbers

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

Tackling fraud

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

Supporting rescue customers

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

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

People

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

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

Building future skills

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

Minimum salaries

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

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

Engaging with our people

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

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

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

2. DiaLoGue – DiaLoGue is our employee engagement tool that we use to survey all colleagues three times a year. Findings provide both a snapshot and trends not only of all-colleague opinion but also findings for specific teams, allowing solutions to be tailored to specific needs. Response to these surveys is consistently high (over 80%).

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

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

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

3. Diversity Network Alliance (DNA) – Our seven employee networks are a key driver of diversity and inclusion across our business. They focus on the following areas: Belief, Life (families and carers), LGBTQ+, Neurodiversity & Disability, REACH (race, ethnicity and cultural heritage), Social Mobility and Thrive (gender).

Strength in diversity & inclusion

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

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

Recruitment and promotion

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

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

Policies and support

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

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

Reverse mentoring

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

Accelerating inclusion

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

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

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

Increasing the representation of women in senior leadership

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

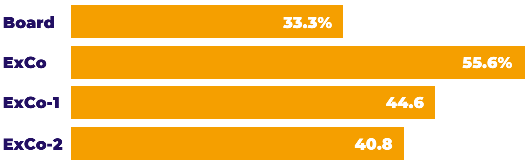
Note:
1. Anonymised CVs do not apply to Executive Committee and Board Roles.

Women in Finance

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

Senior women in leadership representation %

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



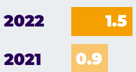
Our long-term focus on investing in women means we have strengthened representation at the most senior levels of our business. In 2023, we will be setting our next set of targets and our focus is on building the pipeline at the mid-levels as we work towards gender parity.

Growing ethnic minority and Black representation in leadership

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

Growing ethnic minority representation from 10% to 13%

Growing Black representation from 0.5% to 1.5%



Activity we are undertaking to shift the dial includes:

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

Gender pay gap

Last year our mean gap widened by 3.2 percentage points and our median gap by 6.1 percentage points. Our pay gap continues to be low compared with the broader financial services sector, but we want to see that gap close. We are comfortable that we don't pay people differently because of their gender and believe that the way to reduce the gap in the medium- to long-term is to continue with our work to address the disproportionate representation of women at certain levels and in certain areas of our business.

Our 2022 gender pay gap showed:

Pay Gap[2]

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

Bonus Gap

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

% of employees receiving bonus

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

Notes:
1. Our Women in Finance Charter definition of senior management is based on our internal grading structure and represents approximately the 1.2% most senior colleagues in our business.
2. The Gender Pay Gap shows the difference in average pay between women and men. This is different to equal pay, which is women and men receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2022.

Ethnicity pay gap

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

As with the gender pay gap, we are comfortable that we don't pay people differently because of their ethnicity and believe that the way to reduce the gap in the medium- to long-term is to continue with our work to address the disproportionate representation of ethnic minority and black colleagues at certain levels and in certain areas of our business.

Pay Gap[3]

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

Bonus Gap

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

% of employees receiving bonus

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

Our mean and median pay gaps by ethnicity

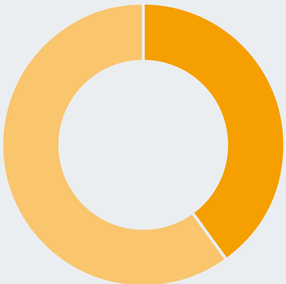
We recognise that different communities can have different experiences, so we have further broken down the data to understand pay gaps for our Black, Asian, Mixed and other ethnicity colleagues versus White colleagues. It's important to note that when pay gap data is based on a smaller number of individuals,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

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

3. The Ethnicity Pay Gap shows the difference in average pay between ethnic minority, Black and White colleagues. This is different to equal pay that is ethnic minority and White colleagues receiving the same pay for work of equal value. Our reporting is based on a snapshot date of 5 April 2022 and 87% of colleagues that have shared their ethnicity with us. As we continue to encourage colleagues to share their ethnicity with us, changes to disclosure will impact the numbers we report.

Gender diversity of our Board

As of 31 December 2022

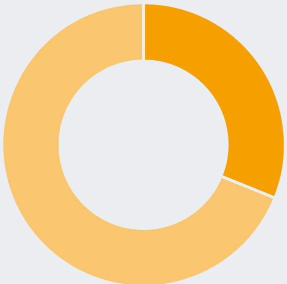


40% Women (4)

60% Men (6)

Gender diversity of senior leadership

As of 31 December 2022



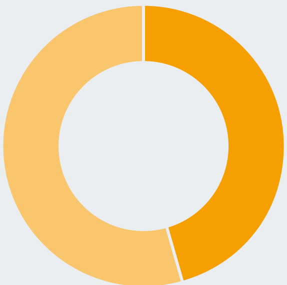
31.3% Women (35)

68.7% Men (77)

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

Gender diversity of all employees

As of 31 December 2022



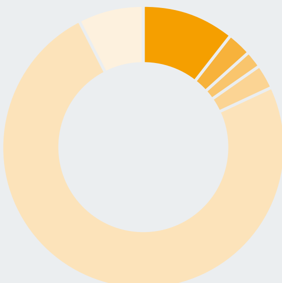
45.7% Women (4,289)

54.3% Men (5,106)

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

Ethnicity of all employees

As of 31 December 2022



10.8% Asian (963)

2.8% Black (251)

1.8% Mixed (157)

2.9% Other (253)

74.2% White (6,590)

7.5% Prefer not say (668)

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

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

Society

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

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

Giving back

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

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

Road safety

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

Prompt payment code

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

Human rights

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

Our 2022 tax contribution

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

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

HM Treasury

£803.9m[3]

Net tax contribution

Society

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

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

Community Fund 2022

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

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

> "It was fantastic to mentor students with our Community Fund and give back to younger people starting on their career journeys."
>
> **Timon Pryce, Principal Pricing Analyst Developer**

Reach
of the programme

500
students engaged to improve employment skills

100%
were eligible for free school meals

85%
were from an ethnic minority background

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

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

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

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

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

Direct Line Group Community Fund

Impact
after taking part in the programme

93%

felt they understood how an insurance company operates

83%

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

74%

felt more confident to apply for jobs

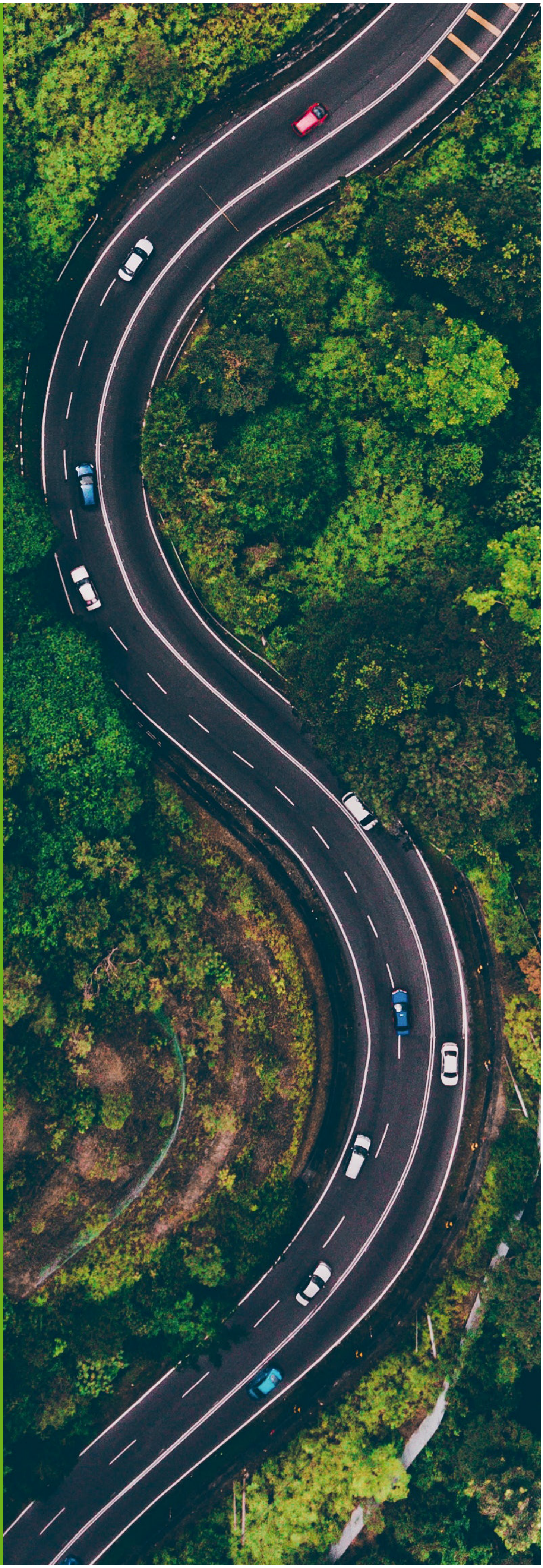
To measure the impact of the programme, students were asked to complete a survey prior to, and after, participating in a Community Fund activity. A few of the key stats are highlighted above.

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

Planet

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

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



There are three steps which guide our approach:

Step 1

Disclose to track progress

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

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

Step 2

Commit to tangible actions

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

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

Step 3

Offset while we reduce

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

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

What does Net Zero mean for us?

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

The business also prioritises the following Strategic Management Actions:

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

Note:
1. Previously known as ClimateCare.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Our approved SBTi plans

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

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

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

Our Science-Based Targets

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

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

Taking action with our supply chain

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

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

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

Our climate journey so far

2013
Began measuring our carbon footprint

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

2016
Our first electric vehicle charging points installed

2018
New energy efficient office opened in Bristol

2020
Offset all our direct emissions

2021
Direct Line launches its first EV bundle for customers

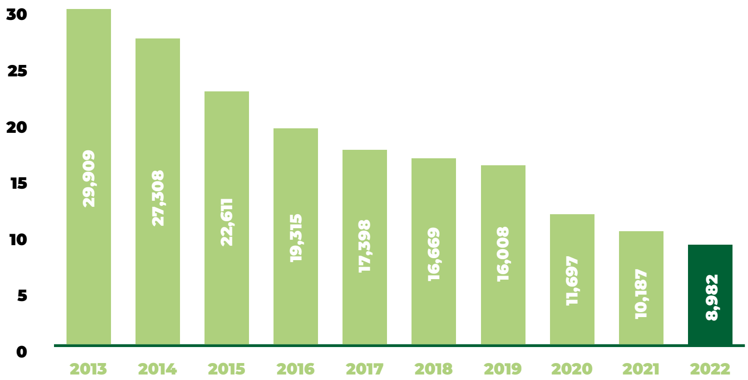
2022
SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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

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

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

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



Energy consumption (kWh)[3,4]

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

Supporting electric vehicle customers

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

Notes:

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

Biodiversity

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

Energy efficiency measures[2]

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

Building on last year's activity, we have:

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

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

Our investments

All external investment managers are signatories of the United Nations Principles for Responsible Investment ("**UN PRI**"), which ensures that Environmental, Social, and Governance criteria are integrated into the investment process. For investment-grade corporate bond portfolios, as an added measure, we require that managers maintain an average MSCI ESG rating equivalent to or higher than that of the ESG-weighted reference index each portfolio is managed against.

We have set ourselves the target of achieving net zero emissions from the investment portfolio by 2050 as part of our alignment with the Race to Zero campaign on climate change. During 2022, we achieved an important milestone on this journey by having our Science-Based Targets approved.

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

We also require the below exclusions and preferences:

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

Group emissions

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

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

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

Definitions

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

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

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

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

Notes:

1. The 2019 reported baseline differs from our previously reported baseline, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
2. The 2021 reported figures differ from our previously reported figures, found on page 72 of the Group's 2021 Annual Report and Accounts, following the validation of our Science-Based Targets.
3. Figures for Scope 2 use standard location-based methodology. We follow GHG Protocol to disclose both location and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based results are nil.
4. Employee commuting is based on estimated UK national averages, not actual individual methods of transport of Direct Line Group employees commuting.
5. Homeworking emissions are reported under the Employee Category in line with GHG Protocol.
6. Upstream leased assets refer to (1) leased office space locations where Direct Line Group does not directly control the energy provision as it is included in the service agreement, (2) Auto Services pods in retail car park locations and (3) Auto Services courtesy cars emissions.
7. Includes Auto Services' courtesy cars emissions which were previously reported under Scope 1. 2021 data represented accordingly.
8. Total of Scope 1 and 2 emissions and Scope 3 emissions under our direct control.
9. In accordance with the GHG Protocol under which we report, the following are excluded from the total: operational control activities already detailed under 'Scope 3 emissions under our direct control'; cash payments to customers or other insurance companies/legal firms as compensation; intragroup transfers between our operating companies for financial accounting purposes as the actual purchase of goods and services to our third-party suppliers is already captured; and reinsurance costs to third-party reinsurers as this is a financing transaction.

Reporting methodology

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

Our carbon emissions are calculated by an external third party and reviewed internally. The calculation method used for our 2022 emissions reporting remains consistent with prior periods and with the reporting standards stated above. For the year ended 31 December 2022, we received independent assurance for our Scope 1 and 2 emissions reporting.

Intensity metric

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

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

Offsetting projects

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

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

Notes:

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

External ratings, memberships and benchmarks

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

MCSI

We maintained an 'AA' rating for activity in 2022

Sustainalytics

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

Ecovadis

We were awarded a Silver medal in 2022

Carbon Disclosure Project

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

Science-Based Targets

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

Race to Zero

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

Get Nature Positive

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

Social Mobility Pledge

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

Women in Finance

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

Race at Work Charter

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

The Faith & Belief Forum

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

Notes:
1. Assessed to be at a low level of risk of experiencing material financial impacts from ESG factors.
2. Copyright © 2022 Morningstar Sustainalytics. All rights reserved. This section contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers

Task Force on Climate-related Financial Disclosures

Introduction

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

The Group, as at the time of publication, has complied with the requirements of Listing Rule 9.8.6R by including climate-related financial disclosures consistent with 9 of the 11 TCFD Recommendations and Recommended Disclosures for all sectors including the supplemental guidance for insurance companies. The Group has reported against all 11 recommended disclosures and believes its disclosure against 9 of the 11 recommendations meets the objectives of the TCFD framework, with the two outstanding recommendations explained below.

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

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

Governance

Our approach

The Group's approach to the governance of its sustainability strategy is underpinned by our Vision and Purpose (see page 10) and a clear commitment from the Board and senior management to align sustainability goals with the Group's strategy, and encourage accountability across the business.

Our five-pillar sustainability strategy, endorsed by the Board, aims to foster the highest standard of Environmental, Social and Governance practice and deliver long-term sustainability for all our stakeholders. The Planet pillar takes the lead on climate-related issues and is sponsored by our Chief Risk Officer ("**CRO**").

Boards and Committees

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

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

- Each year, the Board assesses the strategic plan (the "**Plan**") in conjunction with the Group's Own Risk and Solvency Assessment ("**ORSA**"), which considers material risks to the Plan, including climate change-related risks.

Highlights in the year

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

- The Board oversees the Group's sustainability activity through its Committees, which scrutinise and provide appropriate challenge on the Group's five pillar sustainability strategy, including the establishment and monitoring of Science-Based Targets and the Group's participation in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**"). The Chair of each Committee reports to the Board after each Committee meeting.

Committees

- The **Audit Committee** meets a minimum of four times a year and is responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.
- The **Board Risk Committee** oversees all aspects of financial, regulatory and operational risk, including the long-term risk to the Group from climate change. It meets a minimum of four times a year and receives reports on stress testing of long-term climate change scenarios, discusses strategies for managing the associated risks and considers emerging risks at least twice a year. The Committee played a key role in reviewing and challenging the actions and responses to the Bank of England's CBES exercise.
- The **Investment Committee** meets a minimum of three times a year and considers the strategy for incorporating ESG factors into the Group's investment management, which has seen our credit portfolios tilted to issuers with higher sustainability weightings.
- The **Nomination and Governance Committee** meets a minimum of two times a year, monitoring the Board's overall structure, size, composition and balance of skills. This Committee is also responsible for monitoring the Group's observance of corporate governance best practice.
- The **Sustainability Committee** scrutinises progress against the sustainability strategy to ensure that we continue to make progress under our Customer, People, Society, Planet and Governance pillars. The Committee meets a minimum of four times a year and has overseen: the setting of the Group's Science-Based Targets; activity undertaken by the Group to move towards becoming a net zero business; and Group involvement in climate debates, including the ABI's Climate Change Roadmap, the Partnership for Accounting Financials' methodology for underwriting emissions disclosures

and the Sustainable Markets Initiative Insurance Task Force. During the year, the Committee has discussed prominent public policy challenges such as flooding and accelerating the transition to electric vehicles. From 2023, the Committee will also receive biannual updates on the Group's performance against its science-based emissions reduction targets, following their approval by the SBTi in 2022.
- The **Remuneration Committee** meets a minimum of four times a year and considers how executive remuneration can be used to drive progress on climate related matters. It has introduced an emissions measure in our LTIP based on the greenhouse gas reduction targets approved by the SBTi.

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

Management's role

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

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

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

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

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

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

Group Audit

Group Audit provides an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. Group Audit are represented at the Climate Executive Steering Group.

Strategy

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

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

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

Climate change risks and opportunities

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

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

We also recognise that litigation risks, which includes risks arising when parties who have suffered losses from climate change seek to recover them from those they believe may have been responsible, could also cause adverse impact. This could include direct climate-related litigation against the Group or insurance risk arising from the underwriting of liability products, for example. The Group considers the risks associated with this to be low due to low exposure in high-risk industry sectors.

Materiality

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

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

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

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

Short	**1 – 10 years**
Medium	**10 – 30 years**
Long	**30 years +**

Our approach to defining the time horizons associated with climate-related risks and opportunities is to align closely with the scenarios considered in the Group's quantitative analysis of climate-related risk, which typically considers scenarios that span thirty years or longer (see page 75).

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

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

The key physical and transition risks and opportunities that could significantly impact the Group, as well as the time horizons over which they could manifest, is available further into our disclosure, see pages 78 to 81.

Financial planning, performance and position

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

To help quantify the potential impact of climate change we:

- perform scenario analysis, which enhances our understanding of the financial risks associated with the longer-term impacts of climate change and provides an indication of strategic resilience (see pages 75 to 77);
- undertake climate risk modelling to assess the most predominant physical drivers of risk in our property insurance products, enabling us to evaluate the potential impact to the Group's capital position (see page 82); and
- integrate climate risk into the Group's overall approach to risk management. This includes measuring the relative significance of climate-related risks to other risks in the Group Risk Taxonomy (see page 81).

Financial planning

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

Although limitations and uncertainties associated with the longer-term impacts of climate change exist, the prominence of climate-related considerations in our most recent planning continued to grow.

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

- sustainability-related projects, such as the actions we are taking to reduce the carbon footprint of our accident repair centres and investment portfolio and the associated costs. More information on these actions can be found on page 80 and 81;
- the use of reinsurance in our property insurance business, acknowledging that the cost to obtain catastrophe reinsurance could be impacted by an increase in the frequency and severity of major weather events;
- development of propositions and channel expertise to support the transition to a low carbon economy, such as our electric vehicle offer, which is now available to all Direct Line Motor customers; and
- the reduction of our office footprint, seen, for example, through our planned move from our office site in Bromley to a smaller Central London hub in 2023.

We also monitor losses from major weather events, which include inland and coastal flooding, storm surge, freeze events and subsidence. We use sophisticated modelling techniques to determine the expected losses from major weather events in our Home and Commercial property book to set a weather load for budgeting purposes. The impact of major weather relative to this load for 2022 and prior years can be found on page 83.

Financial performance and position

In preparing the financial statements, the Group has assessed the impact of climate change. While the risks associated with climate change remain uncertain looking forwards, the impact of major weather events is reflected in the Group's historical performance and position as at 31 December 2022. The potential impact of climate change on insurance risk is also discussed in further detail within note 3 to the consolidated financial statements (see page 200).

Areas of physical and transition risks the Group could be exposed to are outlined in the table on page 78. The financial impact of these risks can, if realised, be grouped broadly into the following:

- Adverse impacts to revenue and market share due to a failure to understand the scale of change in market demand for products and services due to climate-related policy, technology and consumer preference.
- Increased climate-related operating costs and capital expenditure due to the investments we make to reduce our carbon footprint and to progress towards our long-term emission reduction commitments.
- Changes in the value of our financial investments due to the influence of physical and transition risk impacting the wider economy.
- An increase in the frequency and severity of natural catastrophes and other weather-related events adversely impacting insurance liabilities.

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

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

Scenario analysis

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

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

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

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

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

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

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

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

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

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

Summary of results

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

The No Additional Action Year 30 scenario also shows the largest increases in insurance liabilities, in absolute terms, which is consistent with estimated increases in Gross Average Annual Losses ("**AAL**") of around 150% for inland flooding and around 370% for coastal flooding. This could result in a material increase in weather load, reinsurance costs and capital load. While the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements are likely to limit the impact on general insurance liabilities, the modelling has illustrated that the increased physical effects of climate change could potentially result in some risks and perils becoming either uninsurable or unaffordable.

Relative Impact – No Additional Action to Early Action

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

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

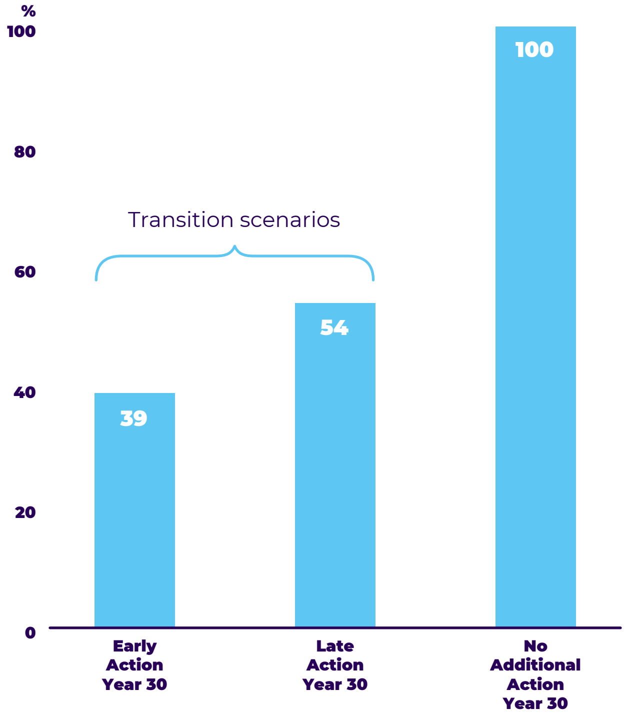


Figure 1: Year 30 impacts of scenarios relative to the largest No Additional Action scenario

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

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

All three scenarios would lead to a breach in risk appetite, and the No Additional Action Year 30 scenario would also lead to a breach in SCR based on the Solvency II balance sheet as at year-end 2020. However, a set of clearly defined management actions could be deployed in each scenario to address the risks and allow the business to recover to above risk appetite (see page 77).

Comparison of impact – insurance liabilities and investments

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

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

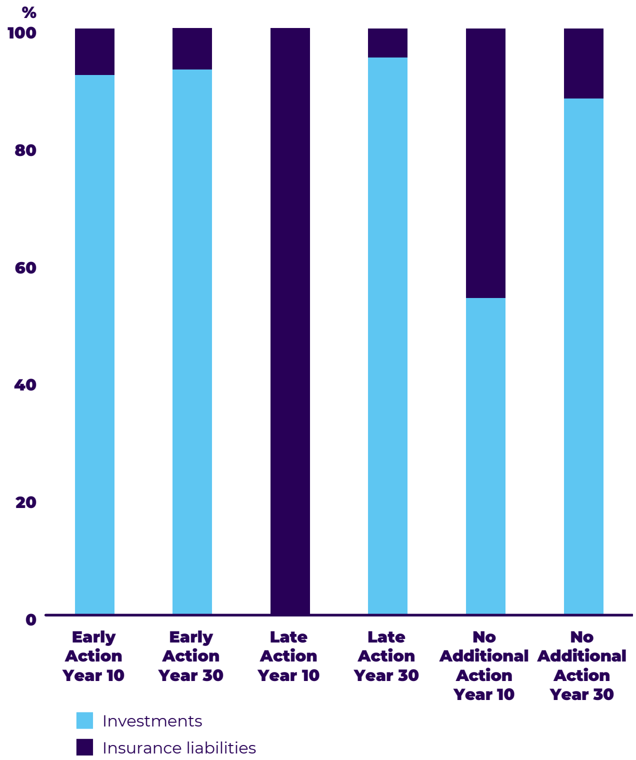


Figure 2: Share of impact – insurance liabilities and investments

Except in the Late Action Year 10 scenario, where there is no transition risk due to the assumed delay, in all scenarios the impact on investments is more material than on insurance liabilities. Additionally, insurance liabilities were considered gross of reinsurance and, in practice, factors such as the short-term nature of the business, the ability to re-price annually and the risk mitigation provided by reinsurance arrangements is likely to limit the impact on general insurance liabilities further.

Physical risk by peril

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

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

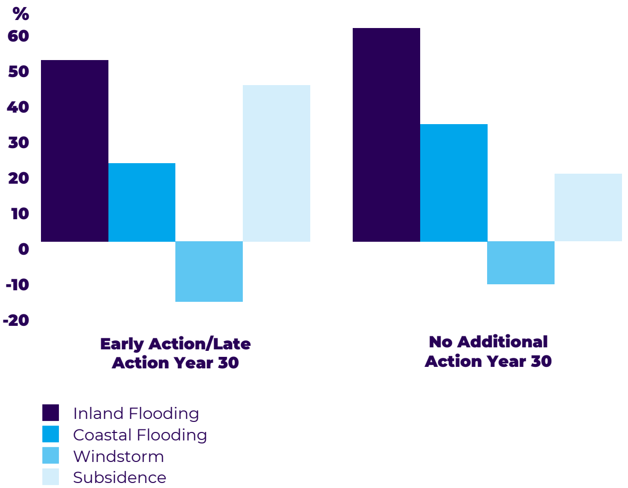


Figure 3: Split of physical risk impacts on insurance liabilities by peril

Figure 3 shows that, on a gross basis, the physical risk to insurance liabilities across all three scenarios was largely driven by inland flooding and coastal flooding, which included storm surge due to a rise in sea levels. However, the analysis shows that the changes to flood and storm surge risk vary regionally. Windstorm was assessed to have a small positive benefit over all scenarios as a result of changing atmospheric conditions driven by complex interactions of a number of variables, ultimately caused by rising temperatures.

Management actions

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

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

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

- **Contingent Management Actions –** These follow the Group's existing Contingent Management Actions framework and would be deployed to mitigate the scenario impacts, assuming these arise as instantaneous shocks on the balance-sheet; potential action could include restricting capital distributions, for example.
- **Pre-emptive Management Actions –** These have been developed assuming that the business can observe the scenarios unfolding in real time and begin to adapt the business model in response to these emerging impacts; they cover areas such as repricing, de-risking of investments and reinsurance.
- **Strategic Management Actions –** These actions are aligned to the Group's ongoing strategic activity as part of our contribution to the transition to a lower-carbon economy. They include: taking action to progress against our net zero ambitions and Science-Based Targets; understanding how we can support in improving the flood resilience of UK properties in flood-prone areas; and evaluating the impact of climate change on our underwriting footprint. Progress against these actions is overseen by the Climate Executive Steering Group. For further information on our Strategic Management Actions, see page 65.

CBES second round

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

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

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

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

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

Our strategic response

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

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

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

Key

S Short-term M Medium-term L Long-term

U Underwriting I Investments O Operations

Underwriting

Property

The physical risks from climate change are most likely to manifest themselves as an insurance risk on our property insurance products.

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

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

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

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

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

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

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

Motor

As one of the largest motor insurers in the UK, the move to electric-powered vehicles is particularly pertinent. Supported by changes in technology and policy, such as Government plans to end the sale of new petrol and diesel cars in the UK by 2030, the speed of transition to electric continues to increase.

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

To date, our actions include:

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

Operations

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

Science-Based Targets

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

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

The targets include an operational emissions target. This covers the Scope 1 and 2 GHG emissions generated from our direct operations, where we are aiming for a 46% reduction in absolute Scope 1 and 2 emissions from our office estate and accident repair centres by 2030, from a 2019 baseline.

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

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

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

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

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

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

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

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

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

Supply chain

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

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

Investments

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

We know that the impacts of potential physical and transition climate-related risks arising in the wider economy will have an impact on our investment portfolio, through their influence on the value of assets. For example, our portfolio is exposed to physical risks through our investment in companies that are exposed to disruption from adverse weather events across their supply chain. It is also exposed to transition risks, where companies that we are invested in are not adapting their strategy to a low-carbon future. However, the transition to a low-carbon economy also creates significant investment opportunities.

We have the long term goal of our entire investment portfolio being net zero emissions by 2050 and in support of our aims we continue to implement key climate initiatives into our investment strategy. During 2022, we:

- received approval from the SBTi for our science-based GHG emission reduction targets in our investment portfolio (see below);
- became a signatory to the CDP's science-based targets campaign; a collective engagement campaign supported by over 300 financial institutions with over $73 trillion in assets which encourages high emitters to set science-based emissions reduction targets; and
- continued to reduce the carbon intensity of our corporate bond portfolio in line with our aim of a 50% reduction by 2030 from a 2020 base year.

Science-Based Targets

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

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

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

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

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

- Thermal coal screen whereby we restrict investment in firms generating more than 5% of revenues from either thermal coal mining or thermal coal power production unless the company is taking positive climate action[1].
- We actively encourage our investment managers to invest in green bonds. Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other environmental projects. All our relevant corporate bond mandate guidelines now direct the portfolio manager to purchase a green bond where the risk return characteristics are similar to those of a comparable non-green bond.
- Within our investment property portfolio all assets must have an Energy Performance Certificate of 'D' or better, or a plan and funds in place to achieve that level. The property portfolio also has a tailored set of ESG targets covering areas such as carbon, energy, water and waste.

Using our influence

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

Risk Management

Enterprise Risk Management Strategy and Framework

The Enterprise Risk Management Strategy and Framework sets out, at a high level, the Group's approach to setting risk strategy and managing risks to the strategic objectives and day-to-day operations of the business. Further information can be found in the Risk management section of the Strategic report on page 87.

Risk taxonomy

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

Risk impact

The impacts of all risks, events and action plans are rated using the Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation of risk across the Group by using Financial, Customer, Reputation and expert judgement inputs. This includes those risks relating to climate change, including climate-related litigation risks, and allows the Group to determine the relative significance of climate-related risks in relation to other risks.

Climate-related risk identification process

Annual risk identification process

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

We also use a variety of indicators across our product segments to assess, monitor and manage climate-related risks. A number of these key metrics can be found on pages 82 and 83.

Regulatory monitoring

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

During 2022, this included reviewing:

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

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

Emerging risk process

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

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

Both physical and transition risks could manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational and strategic risks. For more information on emerging risk and climate change see page 91.

Note:

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

Climate risk modelling

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

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

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

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

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

Metrics and Targets

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

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

Remuneration

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

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

Underwriting

Weather-related loss impact

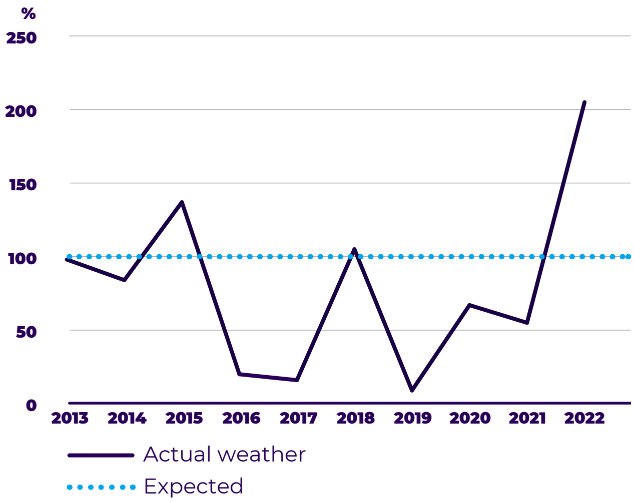
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated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

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

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

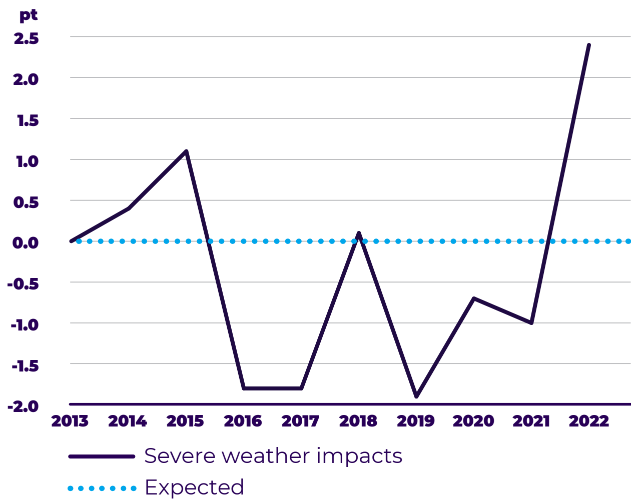
The following graph shows the impact of severe weather events relative to the weather load. In 2022, claims associated with severe weather exceeded our 2022 severe weather assumption, which is set at 100% in the graph.

Severe weather claims (actual % of expected loss)



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

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



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

The frequency and severity of extreme weather events will be affected by climate change, which in turn will affect our view of risk, how we price severe weather risk, and the type and level of reinsurance we purchase to protect our balance sheet.

Home

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

Flooding

Governments have been working with insurers since 2000 to help make flood risk insurance more affordable and in 2016 Flood Re was introduced. Every insurer that offers home insurance in the UK, the Group included, must pay into the Flood Re scheme. This levy raises around £135 million every year which is used to cover the flood risks in home insurance policies.

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

Subsidence

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

Motor

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

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

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

Supplemental guidance for insurance companies

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

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

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

Operational

We calculate and report our GHG emissions annually. Our most recent reporting can be found on page 69 where we continue to break out our Scope 1 and Scope 2 emissions into separate performance figures across our office sites and accident repair centres. We also disclose our Scope 3 footprint, with greater clarity of the activities under our direct control, as well as our supply chain and homeworking emissions.

Our performance to date

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

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

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

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

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

Science-Based Targets

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

In support of our net zero ambitions, we have set five Science-Based Targets, in line with a 1.5°C pathway, focused on the most carbon intensive areas of our business, one of which covering our operational emissions. These targets were approved by the SBTi in 2022.

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

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

Supply chain

While we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is expected in 2023, we chose to set an internal emissions reduction target for our supply chain in 2022. This target forms part of our Sustainable Sourcing Approach, where we continue to encourage our largest emitting suppliers to sign up to SBTI targets or an equivalent (see page 66).

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

Investments

More than 180 financial institutions have publicly committed to set emissions reduction targets through the SBTi. In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambitions of the Race to Zero campaign. The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

Our long-term goal is for our entire investment portfolio to be net zero emissions by 2050, in line with the aims of the Race to Zero campaign. To support this, we have set Science-Based Targets for our investment portfolio covering corporate bonds, commercial real estate and commercial real estate loans, these were approved by the SBTi in 2022.

Science-Based Targets

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

Asset Class	Target
Corporate Bonds	Align the Scope 1 and 2 portfolio temperature score by invested value from 2.44°C in 2019 to 2.08°C by 2027. Align the Scope 1, 2 and 3 portfolio temperature score by invested value from 2.80°C in 2019 to 2.31°C by 2027.
Commercial Real Estate	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.
Commercial Real Estate Loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.

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

The temperature score for corporate bonds is the implied level of warming above pre-industrial levels to which our portfolio is aligned based on the CDP's temperature rating data set. For an individual company the temperature rating is the level of warming to which a company's publicly stated emission reduction targets align. The targets are set on a linear pathway for the portfolio to reach 1.5°C by 2040 as is required by the SBTi.

We aim to achieve our corporate bond target by directing investment to companies with lower temperature scores as these are the ones taking most serious action to reduce emissions. We will also expect our external investment managers to engage with portfolio companies to encourage them to act by setting robust emissions reduction targets. We will also continue to target an interim 50% reduction in weighted average carbon intensity by 2030 from a 2020 base year for corporate bonds in order to ensure emissions are reducing over time.

For commercial real estate, targets were set using the SBTi sectoral decarbonisation approach for real estate which uses the IEA ETP 2017 Beyond 2°C scenario. Emissions for real estate relate to the energy use of buildings which is largely emissions from electricity and heating use. Work towards our real estate targets will require improving the energy efficiency of buildings, engaging with tenants to share energy use data and encouraging them to set their own emissions reduction targets.

Carbon intensity is the GHG emissions intensity per $1 million of sales. Normalising by sales allows the investor to compare carbon efficiency of different-sized firms within the same industry and has become a standard metric used in the investment industry.

Streamlined Energy and Carbon Reporting (SECR) regulations

The following table highlights where information can be found that supports the requirement to disclose how the Group manages its energy consumption and carbon emissions.

Requirement	Pages
Annual global GHG emissions (CO_2e):	
– from activities for which the Company is responsible	67 and 69
– from buying electricity, heat, steam or cooling by the Group for its own use	67 and 69
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	67
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	67
The proportion of GHG emissions and energy consumed relating to the UK and offshore area[1]	67 and 69
Methodology used to calculate emissions and energy consumption	70
At least one intensity metric in relation to emissions	70
Description of energy efficiency actions taken	68

Note:
1. The offshore area is broadly defined as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41 (3) of the Marine and Coastal Access Act 2009.

Risk management

Our aim is to make risk management simple, well understood and embedded. The Risk Function will provide oversight which is pro-active, proportionate and commercial to help the business make informed risk-based decisions and to move quickly whilst understanding the risks.

Managing risk in line with our strategy

Our management team, with oversight from the Board, and Board Risk Committee, is responsible for developing our strategy. Our strategic planning process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver them, including the management of risks arising from the strategic plan.

A key aspect of any effective strategic planning process is to understand and manage those risks appropriately. To achieve this, the Risk Function works closely with the rest of the business to help it to identify and assess risks, which is done through setting and achieving targets as well as through its review and challenge of business plans in the strategic planning process.

The Group's risk strategy is aligned with the Group strategy and supports business decision-making through the proactive identification, assessment and management of risks.

Our risk governance framework

The Risk Function continues to lead significant cultural change to drive ownership of risks across the Group. The Group has a strong risk culture, and a mature and embedded Enterprise Risk Management Framework ("**Risk Management Framework**") with clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls through the three lines of defence model:

First line: Management is responsible for embedding risk management into business as usual and change processes whilst creating transparent reporting of risks and management actions.

Second line: The Risk Function is responsible for the design and recommendation to the Board Risk Committee of the risk management framework, its implementation across the Group and the provision of proportionate oversight of risks, events and management actions throughout the Group.

Third line: Group Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

See page 109 for governance structure.

Risk appetite

Our risk appetite statements define the opportunities and associated level of risk the Group is prepared to accept to achieve its business objectives. The statements are used to drive risk-aware decision-making by key business stakeholders.

Our risk appetite statements are documented in our Policies and include:

- monitoring whether the business remains within risk appetite, among other information, using key risk indicators;
- deriving the key risk indicators from the risk appetite statements to drive and monitor risk-aware decision-making; and
- both qualitative and quantitative risk statements which are forward- and backward-looking. We review our risk appetite statements and key risk indicators annually.

Overarching risk objective

The Group recognises that its long-term sustainability is dependent on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, its appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the United Kingdom. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.

Three strategic risk objectives

1. Maintain capital adequacy

The Group seeks to hold capital resources in the range of 140% to 180% of the partial internal model solvency capital requirement.

2. Stable/efficient access to funding and liquidity

The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a 1-in-200 year insurance, market or credit risk event.

3. Maintain stakeholder confidence

The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, poor customer outcomes, fines or prosecutions and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. The Group's objective is to maintain a robust and proportionate internal control environment.

Our Risk Management Framework

The Risk Management Framework sets out, at a high level, the Group's approach to setting risk strategy and managing risks to the strategic objectives and day-to-day operations of the business. The Risk Management Framework is designed to manage the Group's risk proactively and to enable dynamic risk-based decision making.

Aligned to the three lines of defence model, not only does the Risk Management Framework articulate the high-level principles and practices needed to achieve appropriate risk management standards, but it also demonstrates the inter-relationships between components of the Risk Management Framework.

Within this, the risk management process is a key element in the development and on-going maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage, monitor and report on the risks that the Group is exposed to. See pages 81 and 82 for specific information on how the business identifies and assesses the risks associated with climate change.

Within the Risk Management Framework, Policies address specific risk areas and are aligned to the Group's risk appetite. Policies, where appropriate, are supported by underlying Minimum Standards which interpret Policies into a set of risk and control requirements to be implemented across the Group.

Our risk culture

Our risk culture underpins our business and decision-making, and helps us embed a robust and disciplined approach to managing risk. Our Risk Function drives ownership of risks in the business, ensures that risk consideration is integral to decision-making and that activities within the business are aligned with the Risk Management Framework. Risk also provides expert advice and guidance to business areas, including challenging the effectiveness of controls to manage risk and compliance, to support the business in demonstrating the right mindset to achieve its strategic objectives. The Board is committed to promoting a culture of high standards of corporate governance, business integrity, ethics and professionalism in all our activities.

The Risk Function has worked collaboratively across the Group to support embedding a positive risk culture, in particular developing an approach to assessing risk culture, to ensure risk is fully integrated within the Group's wider cultural ambitions and aligned on outcomes/behaviours we expect of our people.

Aurore Lecanon
CRO

Our CRO

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

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

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

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

Principal risks and uncertainties

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

Our principal risks are under continuous review and assessment and, with the introductions of the FCA's PPR regulations and Consumer Duty, Conduct Risk is now deemed a principal risk to the Group. In addition, Insurance, Strategic and Operational Risks are seeing increasing trends, impacted by macroeconomic changes putting pressure on strategy and the changes in technology systems, people and processes.

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

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

Principal risk	Description	Risk commentary	
Regulatory Compliance Risk Relative size of risk Trend – increasing	The risk of reputational damage, regulatory or legal censure, fines or prosecutions and other types of losses arising from non-compliance with regulations and legislation.	The outlook for regulatory compliance risk is increasing as financial institutions respond to multiple regulatory change priorities, alongside a challenging external environment covered in Strategic risk and Insurance risk. Further, regulators are increasingly expecting financial institutions to play a broader role in resolving societal issues, such as income inequality, climate change, and diversity and inclusion; creating challenges for insurers to balance commercial and societal outcomes in decision-making, as they seek to meet the needs of different stakeholders. We have maintained an open relationship with our regulators, and we have continued to engage with the regulators and HM Treasury regarding the future regulatory framework within the UK.	We remain focused on the key areas of regulatory attention, including implementation of the the FCA's PPR regulations, the Consumer Duty, FCA's 'Dear CEO' letter on cost of living and insurance, FCA guidance on the fair treatment of vulnerable customers, PRA 'Dear Chief Actuary' letter on reserving and capital modelling and inflation risk, and the PRA's 'Dear CEO' letter on the PRA's supervision of climate related financial risk. We have also continued our focus upon operational resilience in accordance with the increased regulatory requirements introduced during the year. Finally, we have a governance and accountability framework in place as part of the Senior Managers and Certification Regime, and carry out an annual declaration process to ensure the ongoing fitness and propriety of the Group's Senior Managers and Certified Functions.
Credit Risk Relative size of risk Trend – increasing	The risk of loss resulting from default in obligations due from, and/or changes in the credit standing of, issuers of securities, counterparties or any debtors to which the Group is exposed.	The outlook for credit risk is increasing due to the potential impact on business models from behavioural or societal changes arising from the recession and cost of living crisis.	To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures. In addition, we only purchase reinsurance from reinsurers with at least A- rating and, for liabilities with a relatively long period of time to settlement, this rating is at least A+. Finally, we also have well defined criteria to determine which customers are offered and granted credit.
Strategic Risk Relative size of risk Trend – increasing	The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	The trading updates issued in July 2022 and January 2023, the CEO stepping down also in January 2023, and response to the FCA's PPR regulations has led to an increasing strategic risk for the Group over the Plan period and a need to rebuild balance sheet resilience. A period of uncertainty in leadership continuity may restrict the Group's ability to progress with its strategic growth agenda. However, completing the Group's 10% quota share reinsurance contract has contributed to restoring capital resilience. Strategic risk is also influenced by internal and external developments, including the risk of the UK entering a recession, the worst cost of living crisis in decades, high levels of inflation, and the longer-term implications of the war in Ukraine and other geopolitical tensions that could crystallise.	To allow for better recognition of internal and external drivers of climate-related risk and to provide a focal point for the reporting of risks relating to climate change, the Strategic risk category has been broadened to include Climate risk within Environmental, Social and Governance risk. The Group takes the following steps to manage its risks: · we agree, monitor and manage performance against the Board-approved plan and targets; · the Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; · as part of the timetable for the strategic plan, the Risk Function carries out a risk review of the Plan which is documented in the Group's Own Risk and Solvency Assessment and presented to the Board; and · we identify and manage emerging risks using established governance processes and forums.

Effects of macroeconomic and trading environments on the Group

The UK is facing into a cost of living crisis and the potential of a UK recession, driven by the challenging macroeconomic environment. This, in conjunction with a challenging trading environment, could lead to or exacerbate existing risks for the Group and we remain alert to possible developments across our risk universe.

Emerging risks

Emerging risks are defined by the Group as newly developing or changing threats or opportunities, external to the Group, that are subject to a high degree of uncertainty but have the potential to materially impact the Group.

The Group has in place an emerging risks process designed to enable it to:

– have a proactive approach to emerging risk management;
– identify, manage and monitor a broad range of potential emerging risks; and
– mitigate the impact of emerging risks which could impact the delivery of the Plan.

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks.

The most notable emerging risks currently being monitored via the emerging risks process are outlined below.

Climate change

The Group recognises that climate change potentially poses material long-term financial risks to the business and is receiving increased scrutiny from investors and regulators. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks.

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

We continue to monitor these risks closely and to develop our climate change modelling capability. Further details on our risk management approach to climate change are included on pages 81 to 82, within the Task Force on Climate-related Financial Disclosures ("**TCFD**") report.

Changing customer needs

As consumers face intense pressure on their finances and time, coupled with generational changes, this is expected to generate a rapid structural shift in customer demand, requiring the Group to innovate and adapt its product offerings in order to remain relevant.

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

Keeping up with Digital Advancements

Developments in technology and changes in market, regulatory and consumer trends are creating opportunities for new entrants to profitably exploit new distribution channels, business models and niches. Failure to keep up with such developments could lead the Group to fall behind.

To mitigate this, we are delivering multiple programmes to provide the Group with the capabilities to enable future innovation at pace.

Keeping up with digital advancements

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

Geopolitical Tension

Due to heightened tensions on the world stage, there is a risk that measures are implemented by governments that decrease political stability, erode countries' relationships and contribute to increasing protectionism. This could lead to multiple impacts including on investment performance and supply chains. The Group conducts ongoing analysis to monitor exposure to the developing geopolitical environment (for example, Russia/Ukraine), while maintaining a close eye on the political risk landscape.

Automotive Technology

New car technology, such as autonomous vehicles and hydrogen power, are in development which, once on UK roads, is expected to be transformative. Traditional motor policies may no longer serve the needs of customers, requiring changes to the Group's pricing models and policy wordings to remain relevant. The repair networks' capabilities will also need to be upgraded to serve this demand effectively. The Group will focus on launching new products that will better serve customer needs in the future while engaging with regulators to help shape policies and understand potential impacts for the Group.

Data Ethics

Consumers are becoming more aware of their data rights and regulators more interested in how firms use customer data. The industry is also gathering more data than ever before and increasingly exploring more sophisticated processing capabilities, such as artificial intelligence ("**AI**") and machine-learning. These trends together could lead to data being used in ways that customers or regulators find unacceptable, or which result in unfair customer outcomes.

The Group is embedding the Data Ethics Framework within the Pricing & Underwriting team's policies and procedures, while providing guardrails to apply across the Group. As new data capabilities are introduced, our monitoring and oversight is designed to ensure adherence to the principles set out in the Framework.

Viability statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the minimum 12 months required by the going concern statement. The Strategic report, on pages 1 to 93, sets out the Group's financial performance, business environment, outlook and financial management strategies. It covers how the Group measures its regulatory and economic capital needs and deploys capital. You can find discussion about the Group's principal risks and risk management on pages 88 to 90. Note 3 to the consolidated financial statements starts on page 198 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk, and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Every year, the Board considers the strategic plan ("the **Plan**") for the Group. The Plan makes certain assumptions in respect of the competitive markets in which the Group operates. By its nature, a strategic plan comprises a series of underlying assumptions which can be uncertain in nature and rely on judgement. Each year, the Group's Risk Function assesses the Plan and provides a report to the Board which supports the Board in concluding on the Group's viability.

When reviewing the Plan, the Board considered the Group's prospects over the period that the Plan covered and the conclusions of the Risk Function's review, based on the Group's anticipated activities as set out in the Plan. The Board has assessed the principal risks of the Group over the duration of the planning cycle. All of the Group's principal risks, as outlined on pages 88 to 90, were reviewed as part of the Risk Function review of the Plan, and the outlook of those risks over the period covered by the Plan was taken into account (i.e. whether the outlook for each risk was increasing, broadly static or decreasing over the period of the Plan). In addition, the Risk Function's review defined a set of key risk themes, known as top risks, grouped around the themes of financial resilience, operational resilience and future strategic fit in the context of the Plan. The Plan did not introduce any new material risks other than those already contained within the Group's Material Risk Register. Whilst outcomes for the later years in the Plan are less certain, the Plan provides a robust planning tool for strategic decisions. The Board recognises that, in a strategic plan, uncertainty increases over time and, therefore, future outcomes cannot be guaranteed or accurately predicted. As the Plan is used for planning over a timeframe of four years, to 31 December 2026, this has been selected as the most suitable period for the Board to review the Group's viability.

The Group's Risk Function has carried out an assessment of the risks to the Plan and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, delay in pricing, increase in operating expenses and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% with the Group and market response delayed by six months.
- Delay in pricing: future initiatives deliver 50% of expected value.
- Increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives.
- Fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The trading update that was approved by the Board of Directors, and announced to the stock market on 11 January 2023, in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. The CFO review describes the Group's capital management strategy, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet, and sets out management actions that the Group continues to pursue to improve capital strength. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings.

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

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. The macroeconomic assumptions for key parameters such as Consumer Price Index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible".

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

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

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the CFO review. This sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note in the consolidated financial statements sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Climate change: during the year, the Group updated a number of stress and scenario tests that had previously been performed in 2021, designed to reflect the potential impact of short- and long-term climate change risk on the Group's balance sheet and solvency position. The tests are discussed in more detail on pages 75 to 77. The overall conclusion of these tests was that there could be breaches in the Group's risk appetite in the long term, however a combination of contingent, pre-emptive and strategic management actions could be deployed to address the risks and allow the business to recover to above risk appetite. Furthermore, the Group's response to climate change underpins its sustainability strategy and in the year the Group has set out its Science-Based Targets to reduce the Group's carbon footprint.

Based on the results of these reviews, the Board has a reasonable expectation that the Company and the Group can continue in operation, meet liabilities as they fall due and provide the appropriate degree of protection to those who are, or may become, policyholders or claimants in the period to 31 December 2026.

Statement of the Directors in respect of the Strategic report

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

By order of the Board

Neil Manser
Chief Financial Officer

21 March 2023