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

Our mission is to be brilliant for customers every day.

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

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

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

Focused on performance

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

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

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

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

Progress in all segments

Sale of brokered commercial business

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

For more information, please read page 16.

Improving Motor margins

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

For more information, please read page 15.

Resilient performance from other businesses

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

For more information, please read page 15.

Focused on customers

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

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

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

Adapting to customer needs

Direct Line Essentials

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

Read more on page 52.

Consumer Duty

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

Read more on page 51.

Motor Claims Hub

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

Read more on page 53.

Focused on retail personal and commercial insurance

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

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

Focused for the future

Motability partnership

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

Read more on pages 15 and 52.

By Miles acquisition

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

Read more on page 53.

Commercial direct

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

Read more on pages 15 to 16.

Danuta Gray
Chair of the Board

Chair's statement

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

Dear Shareholders,

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

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

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

Welcoming our new CEO, Adam Winslow

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

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

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

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

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

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

Dividend and capital management

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

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

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

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

Board and leadership

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

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

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

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

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

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

Customers

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

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

2023

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

2024

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

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

Culture

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

People

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

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

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

Planet

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

Conclusion

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

Danuta Gray
Chair of the Board

Adam Winslow
Chief Executive Officer

CEO review

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

Note
1. Normalised for weather.

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

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

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

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

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

Reduce our cost base

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

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

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

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

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

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

Improve claims performance

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

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

Optimise pricing capability

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

Broaden market coverage

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

Financial impact of transformation programme

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

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

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

Strategic review

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

Capital and dividends

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

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

Outlook

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

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

Adam Winslow
Chief Executive Officer

Jon Greenwood
Acting Chief Executive Officer

Outgoing Acting CEO review

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

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

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

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

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

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

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

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

2023 results

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

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

Improved our written margins in Motor

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

There are four key areas we have focused on.

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

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

Motor current-year attritional net insurance claims ratio

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

Commenced new Motability partnership

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

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

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

Non-Motor businesses delivered resilient performance

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

Resilient performance in Home

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

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

Continued growth in Commercial Direct

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

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

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

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

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

Strong margins in Rescue and other personal lines

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

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

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

Expanding our products and servicing options for our customers

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

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

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

Past business reviews

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

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

Sale of Brokered Commercial business

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

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

A positive start to 2024 trading

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

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

Jon Greenwood
Outgoing Acting Chief Executive Officer

Section 172(1) statement

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

Purpose and Vision

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

Stakeholders

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

Engagement

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

Board decisions and oversight

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

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

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

Business model

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

Motor

Home

Van

Landlord

Rescue

Pet

Tradesperson

Business

Travel

We give our customers a choice of brands and channels

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

Direct Line

churchill

Privilege.

Darwin.

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

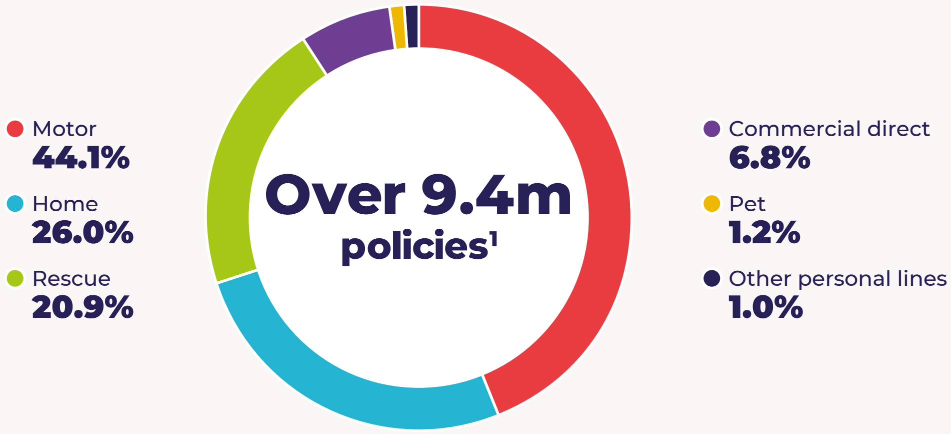
ONLY THE BEST GET THE GREEN FLAG

We also partner with other well-known brands

Together with Motability

DLG PARTNERSHIPS

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



This is how we create value

Diversified model

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

DLG AUTO SERVICES

Accident repair centres

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

Claims management

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

Balanced investment portfolio

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

Cost control

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

Capital management

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

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

Market Overview

Motor premium and claims inflation

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

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

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

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

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

Home premium and claims inflation

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

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

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

Consumer trends

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

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

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

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

Financial Conduct Authority Consumer Duty

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

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

Climate change

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

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

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

Solvency II reforms

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

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

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

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

Strategy

Our mission is to be brilliant for customers every day

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

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

Our values

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

Win together

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

Be yourself

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

Own it

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

Speak up

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

Our core strengths and capabilities drive our strategy

Growth opportunities

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

Core strengths

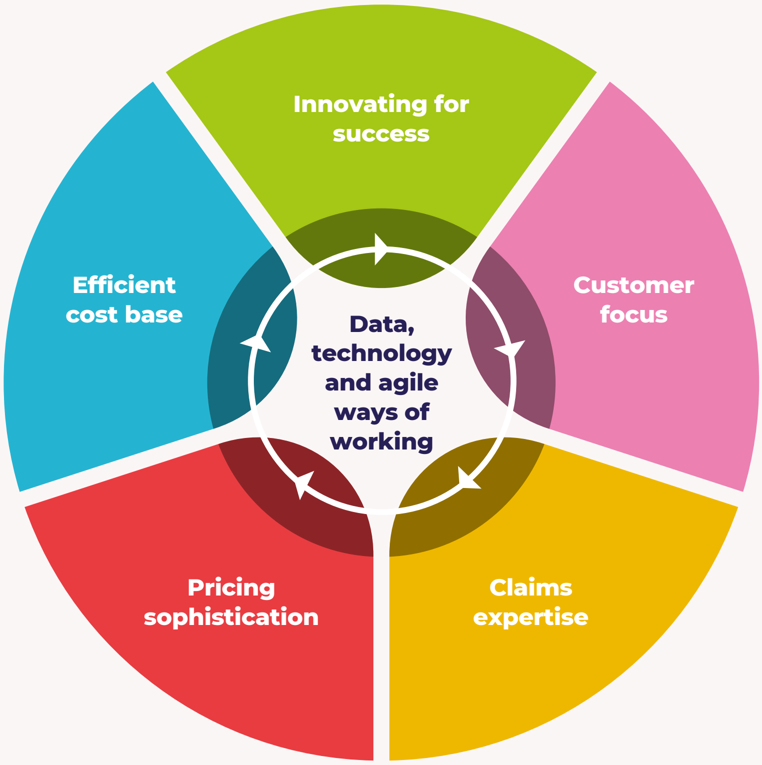
We have powerful, trusted brands with unique propositions and high customer retention.

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

Enhanced capability

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

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

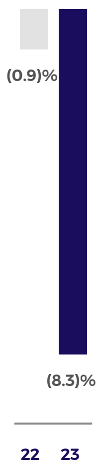


Our sustainability pillars

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

Customers **People** **Society** **Planet** **Governance**

Our key performance indicators



Net insurance margin - ongoing operations[1] ("NIM") (%)

Definition

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

Aim

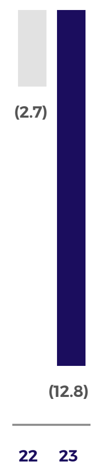
We aim to produce a profitable insurance service result and the Group has an ambition over time to generate a NIM of above 10%, normalised for weather.

For additional performance information see page 28

Remuneration

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

For additional performance information see pages 132 and 140



Operating loss per share - ongoing operations[1] (pence)

Definition

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

Aim

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

For additional performance information see page 31

Remuneration

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

For additional performance information see page 143

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

Definition

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

Aim

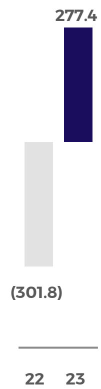
We do not set a target. However our aim is to grow operating RoTE.

For additional performance information see page 31

Remuneration

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

For additional performance information see pages 132 and 143



(Loss)/profit before tax (£m)

Definition

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

Aim

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

For additional performance information see page 27

Remuneration

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

For additional performance information see pages 132 and 140

Notes:

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

Changes to our KPIs in 2023

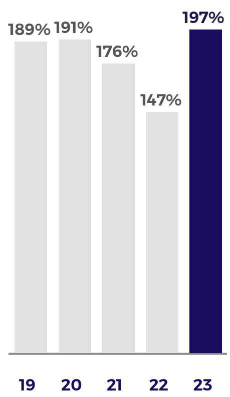
Our metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2023, the review of these metrics resulted in the following changes:

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

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

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

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



Solvency capital ratio[1,2,3] (%)

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

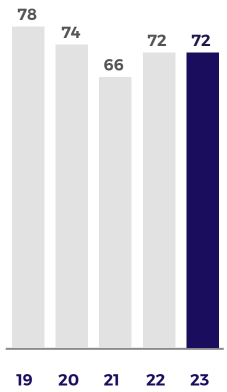
Under normal circumstances, the Group aims to maintain a solvency capital ratio around the middle of the risk appetite range of 140% to 180%.

For additional performance information see page 32

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 page 132



Colleague engagement[4] (%)

Definition

Engagement is the degree in which our colleagues use their cognitive, emotional, and behavioural energies to help the Group achieve our company goals. We partner with Viva Glint to regularly monitor engagement levels across the Group.

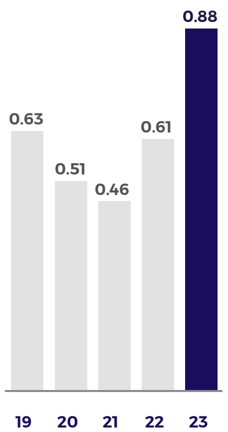
Aim

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.

Remuneration

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

For additional performance information see pages 132 and 141



Customer complaints[5] (%)

Definition

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

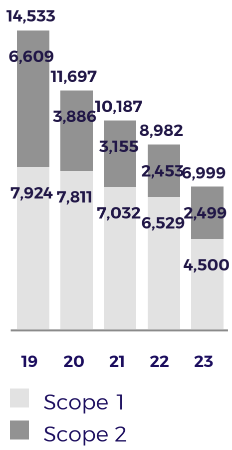
Aim

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 132 and 141



Operational emissions[1] (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 62 and 64

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 page 143

2. The 2019 solvency capital ratio has been adjusted to remove the cancelled 14.4p final dividend and £120 million of the share buyback as announced in March/April 2020. (The reported number was a solvency capital ratio of 165%).
3. Estimates based on the Group's Solvency II partial internal model.
4. The methodology for determining colleague engagement changed in 2022 as a result of a change of survey provider. Engagement scores for the years 2018 to 2021 are presented on a consistent basis. The 2022 score was assessed against a benchmark score of 75% and is not directly comparable to the scores in 2021 and prior years.
5. For the Group's principal underwriter, U K Insurance Limited.

Neil Manser
Chief Financial Officer

CFO review

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

Financial Summary

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

Group financial performance

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

Notes:

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

Group financial performance

Ongoing operations[1]	**31 Dec 2023**	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
In-force policies (thousands)[2,3]	**9,442**	9,518	9,071	9,228	9,397

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

IFRS17 and description of operating (loss)/profit

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

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

2023 performance

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

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

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

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

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

Insurance service result[1]

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

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

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

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

Impact of past business reviews on reported net insurance margin

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

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

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

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

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

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

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

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

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

Expenses in insurance service result

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

Investment result and unwind of discount rate[1]

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

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

	FY 2023	FY 2022
Investment income yield (total Group)	**3.5%**	2.1%

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

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

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

Ongoing operations and run-off segments[1]

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

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

Brokered commercial business

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

Run off partnerships

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

Net fair value gains/(losses)

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

Net insurance finance income

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

Restructuring and one-off costs

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

Gain on disposal of brokered commercial business

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

Other finance costs

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

Effective corporation tax rate

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

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

Operating return on tangible equity [1,5]

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

Earnings/(loss) per share

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

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

Notes:

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

Cash flow

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

Note:

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

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

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

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

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

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

Balance sheet management

Capital management and dividend policy

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

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

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

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

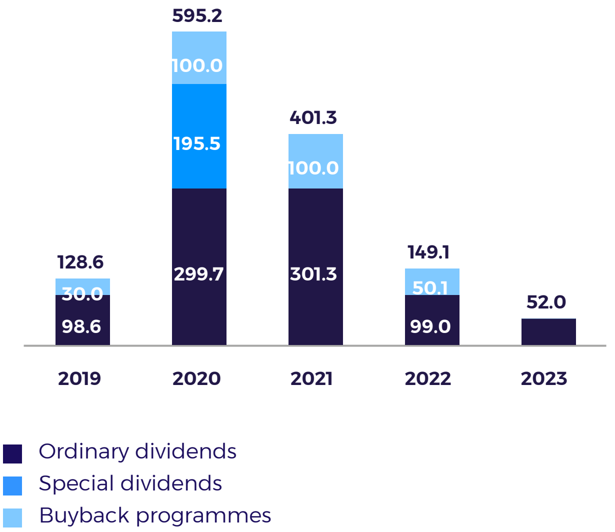
"In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

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

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

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

Capital Returns (£million)



Capital analysis

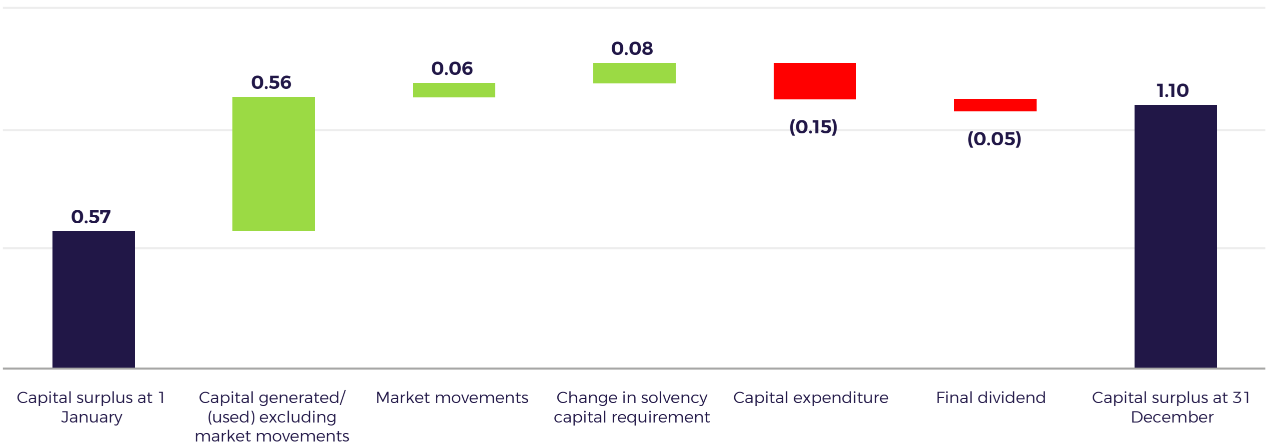
The Group is regulated under Solvency II requirements by the PRA on both a Group basis and for the Group's principal underwriter, U K Insurance Limited. In its results, the Group has estimated its Solvency II own funds, SCR and solvency capital ratio as at 31 December 2023.

Capital position

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

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

Movement in capital surplus (£bn)



Movement in capital surplus

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

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

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

Change in solvency capital requirement

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

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

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

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

Own funds

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

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

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

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

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

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

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

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

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

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

Investment portfolio

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

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

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

Asset and liability management

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

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

Asset allocation and benchmarks - U K Insurance Limited

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

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

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

Investment holdings and yields

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

Notes:

1. Prior period comparatives have been restated on transition to IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'. See notes 1 and 21 for further details.
2. Asset allocation at 31 December 2023 includes investment portfolio derivatives, which have a mark-to-market asset value of £12.4 million which is split as assets of £12.0 million included in investment grade credit and of £0.4 million included in sovereign debt (31 December 2022: mark-to-market asset value of £2.5 million and £0.9 million liability respectively). This excludes non-investment derivatives that have been used to hedge operational cash flows.
3. Net of bank overdrafts: includes cash at bank and in hand and money market funds.
4. £241.8 million (2022: £nil) of this balance is invested within money market funds under the 100% quota share reinsurance treaty for the brokered commercial business, which is operated on a funds withheld basis. This entitles the reinsurer to the investment return earned on underlying collateral assets held in money market funds. The Group has appointed a custodian for the asset while retaining ownership of the funds withheld assets collateral.
5. Equity investments consist of quoted shares and insurtech-focused equity funds. The insurtech-focused equity funds are valued based on external valuation reports received from a third-party fund manager.

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

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

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

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

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

Net asset value

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

Notes:

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

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

Leverage

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

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

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

Credit ratings

Moody's Investors Service provides insurance financial-strength ratings for U K Insurance Limited, our principal underwriter. Moody's rate U K Insurance Limited as 'A2' for insurance financial strength (strong) with a stable outlook.

Reserving

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

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

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

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

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

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

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

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

Net liability for incurred claims

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

Note:

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

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

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

	Increase/(decrease) in profit before tax and equity gross of reinsurance1,2		Increase/(decrease) in profit before tax and equity net of reinsurance1,2	
	2023	2022	**2023**	2022
At 31 December	**£m**	£m	**£m**	£m
Discount curve - PPOs[3]				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**95.0**	87.1	**39.0**	35.2
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(127.8)**	(113.7)	**(52.1)**	(45.4)
Discount curve - other claims[4]				
Impact of an increase in the discount rate used in the calculation of present values of 100 basis points	**55.9**	39.7	**37.2**	27.1
Impact of a decrease in the discount rate used in the calculation of present values of 100 basis points	**(58.6)**	(41.4)	**(38.9)**	(28.2)
Ogden discount rate[5]				
Impact of the Group reserving at a discount rate of 0.75% compared to minus 0.25% (2022: 0.75% compared to minus 0.25%)	**105.1**	85.7	**48.1**	24.8
Impact of the Group reserving at a discount rate of minus 1.25% compared to minus 0.25% (2022: minus 1.25% compared to minus 0.25%)	**(220.6)**	(180.4)	**(97.0)**	(48.2)
Claims inflation				
Impact of a decrease in claims inflation by 200 basis points for two consecutive years	**112.8**	96.9	**71.7**	64.5
Impact of an increase in claims inflation by 200 basis points for two consecutive years	**(114.6)**	(98.3)	**(72.8)**	(65.4)
Risk adjustment[6]				
Impact of a risk adjustment at the 70th percentile compared to the booked risk adjustment at the 75th percentile	**73.1**	74.1	**36.6**	33.7
Impact of a risk adjustment at the 80th percentile compared to the booked risk adjustment at the 75th percentile	**(84.5)**	(87.5)	**(42.9)**	(38.6)

Notes:

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

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

Reinsurance

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

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

Tax management

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

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

Tax authorities

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

Tax policy and governance

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

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

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

Total tax contribution

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

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

Total taxes borne

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

Total taxes collected

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

Neil Manser
Chief Financial Officer

Motor

Performance summary

—

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

—

Gross written premium grew by 42.9%.

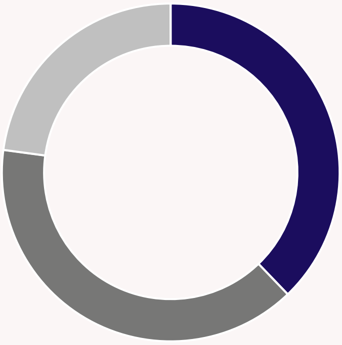
—

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

Financial summary

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

Gross written premium by channel



38 % Direct
39 % Price comparison websites
23 % Partnerships

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

Motability: Welcoming over 700,000 customers

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

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

In-force policies and gross written premium and associated fees

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

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

Underwriting

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

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

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

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

Net insurance margin and loss

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

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

Loss before other finance costs

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

Notes:

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

Home

Performance summary

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

–

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

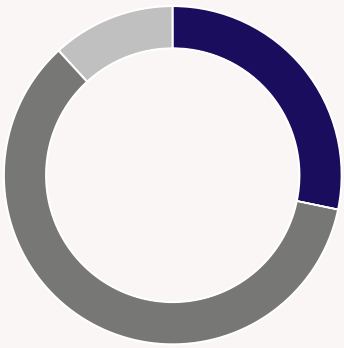
–

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

Financial summary

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

Gross written premium by channel



Notes:

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

Supporting customers during the storms

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

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

In-force policies and gross written premium and associated fees

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

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

Underwriting

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

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

Net insurance margin and profit

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

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

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

Profit/(loss) before other finance costs

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

Rescue and other personal lines

Performance summary

–

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

–

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

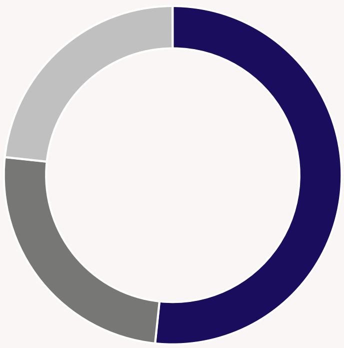
–

Operating profit of £0.4 million in other personal lines.

Financial summary

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

Gross written premium and associated fees by product



Notes:

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

Green Flag: delivering customer satisfaction

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

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

Rescue

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

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

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

Other personal lines

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

Profit before other finance costs

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

Commercial

Performance summary

–

In force policies grew by 1.4%.

–

Gross written premiums grew by 10.1%.

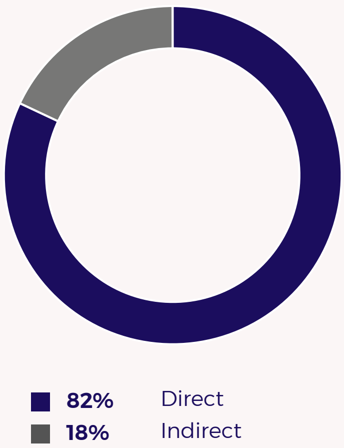
–

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

Financial summary

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

Gross written premium by channel



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

Assisting landlords in an emergency

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

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

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

In-force policies and gross written premium and associated fees

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

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

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

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

Underwriting

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

Net insurance margin and profit/(loss)

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

Profit/(loss) before other finance costs

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

Brokered commercial business and run-off partnerships

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

Brokered commercial business

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

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

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

2023 results

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

Note:

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

Run-off partners

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

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

Rescue packaged accounts

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

Travel packaged accounts

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

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

2023 results

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

Non-financial and sustainability information statement

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

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

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

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

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

Building a sustainable future

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

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

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

Our vision

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

Customers

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

People

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

Society

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

Planet

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

Governance

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

2023 actions

Customers
- Rolled out enhanced vulnerable customer training
- Refreshed how we review customer conduct
- Enhanced our customer experience design process

People
- Launched a new performance framework
- Set new gender and ethnic diversity targets

Society
- Rolled out Community Fund outreach programme
- Launched new partnership with UK Youth

Planet
- Developed our climate-related risk management roadmap
- Rolled out our supply chain sustainability programme

Governance
- Conducted new materiality research and analysis
- Reviewed Board Committees' Terms of Reference for sustainability and climate

Near-term priorities

Customers
- **Evolve and enhance our digital servicing options for customers**
- **Review and update our electric vehicle strategy**

People
- **Develop and embed new learning opportunities**
- **Define our approach to culture, leadership and future prospects**

Society
- **Review our approach, programmes and partnerships**
- **Integrate our community approach to build future talent pipelines**

Planet
- **Review and align with new SBTi standard for financial institutions**
- **Build out our climate transition plan**

Governance
- **Complete materiality analysis and use findings to update our strategy**
- **Enhance overall governance of sustainability and climate across the business**

Customers

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

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

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

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

Lorraine Price, Head of Product Lifecycle Management

The Consumer Duty

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

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

Supporting our customers

Direct Line Essentials and cost of living support

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

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

Enhancing our vulnerable customer approach

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

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

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

Focused on customer needs

Motability onboarding

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

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

Darwin milestone

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

Customer user research suite

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

Making electric easy

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

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

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

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

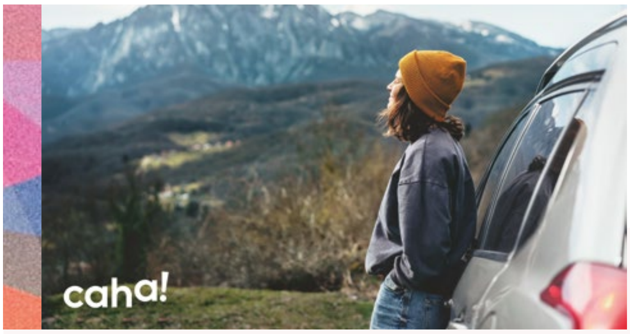
Behind the scenes, we continue to build our own capabilities and expertise to support the growth and development of our EV strategy. This includes the training and recruitment of EV-accredited technicians in our accident repair centres (with over 170 across our sites and a minimum of two on each site),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

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

Delivering digital-first journeys

By Miles acquisition

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



Launch of Caha! app

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

Motor Claims Hub

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

Recognition

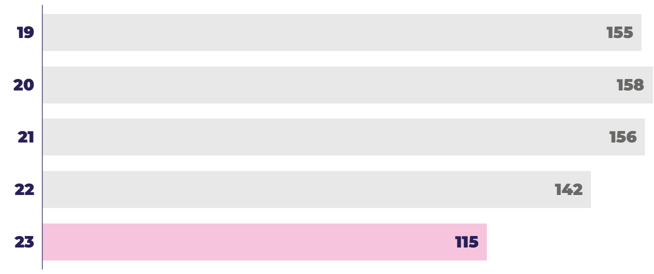
Brand awards

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

Net Promoter Score ("NPS")

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

Net Promoter Score – Direct Line brand



People

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

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

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

Stephanie Bishop, Emerging Careers Lead

Focused on performance

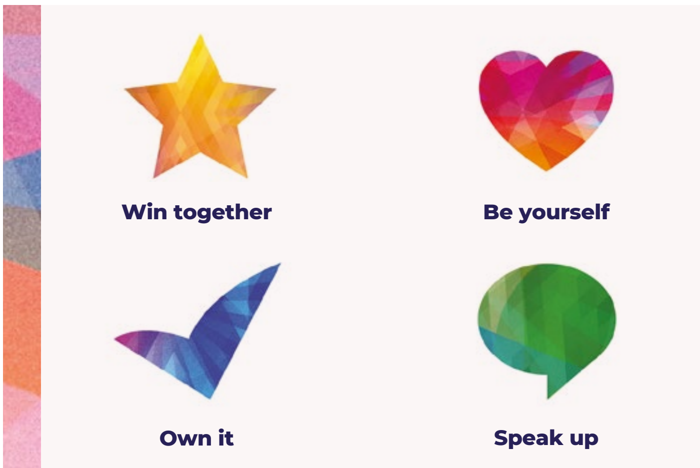
Our new performance framework means all colleagues can be clear on what high-performance looks like, what they need to deliver and how to deliver it by demonstrating our core values. We have applied a strong diversity and inclusion lens to our approach – helping to protect against bias. This has provided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

Focused on Values

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

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

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



Building skills and capabilities

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

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

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

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

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

Rewarding colleagues

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

In March 2024, we announced that all eligible employees (excluding Executive Directors and senior management) will receive a salary increase of 5% effective from 1 April 2024. We remain firm to our commitment to lift the pay of our lowest earners and also announced that all colleagues will meet the Living Wage Foundation's National Real Living Wage (as set in November 2023) from 1 April 2024. This means that some employees will see their salary rise by around 7% on a full-time basis (for a 37.5hr working week), and the DLG minimum salary will be £23,400 from 1 April 2024, for a 37.5hr working week, (excluding apprentices in DLG Auto Services who receive different rates of pay).

A diverse and inclusive business

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

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

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

Increasing diverse representation in Senior Leadership

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

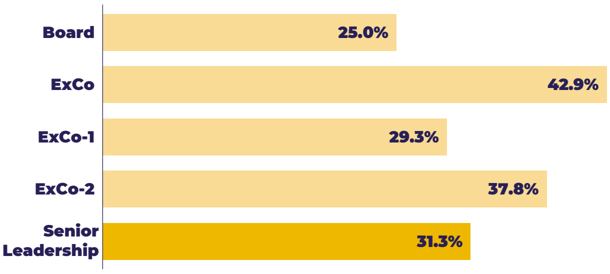
During 2023, we evolved our Senior Leadership diversity representation targets in order to better align with the approach taken by the FTSE Women Leaders Review, Women in Finance review and Parker Review. Whereas previously we set senior level diversity representation targets (including our 2023 targets)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

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

Senior Leadership female representation

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

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

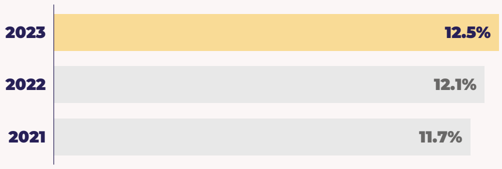


Senior Leadership ethnic minority and Black representation

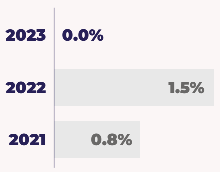
Although we missed our senior role ethnic minority and Black representation 2023 annual targets (being 14.2% and 2.6% respectively), we recognise that progress is not always linear, and our representation remains strong compared to industry peers. We are strengthening our Senior Leadership succession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

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

Ethnic minority representation in Senior Leadership[1]



Black representation in Senior Leadership[1]

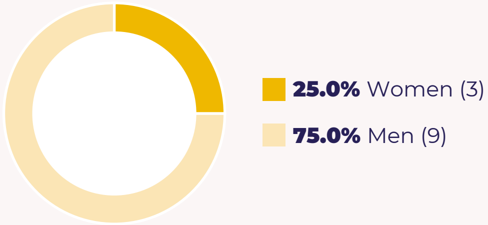


Notes:

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

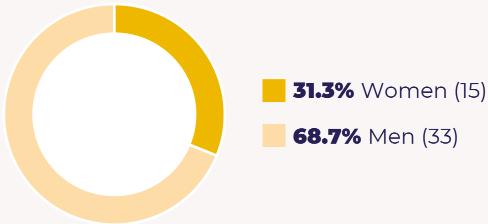
Gender diversity of our Board

As of 31 December 2023



Gender diversity of Senior Leadership

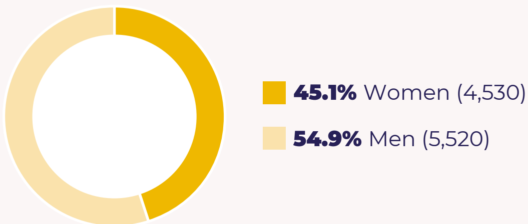
As of 31 December 2023



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

Gender diversity of all employees

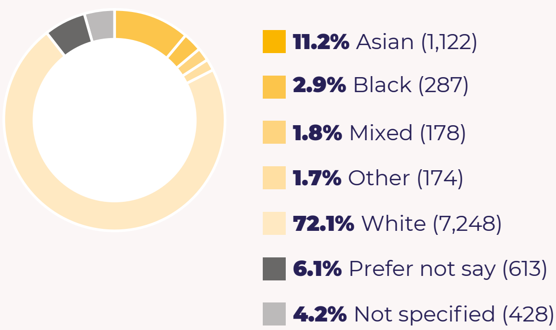
As of 31 December 2023



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

Ethnicity of all employees

As of 31 December 2023



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

Gender pay gap[1]

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

Our 2023 gender pay gap showed:

Pay gap

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

Bonus gap

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

% of employees receiving bonus

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

Ethnicity pay gap[2]

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

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

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

Ethnicity pay gap

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

Ethnicity bonus gap

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

% of employees receiving bonus:

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

Notes:

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

Society

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

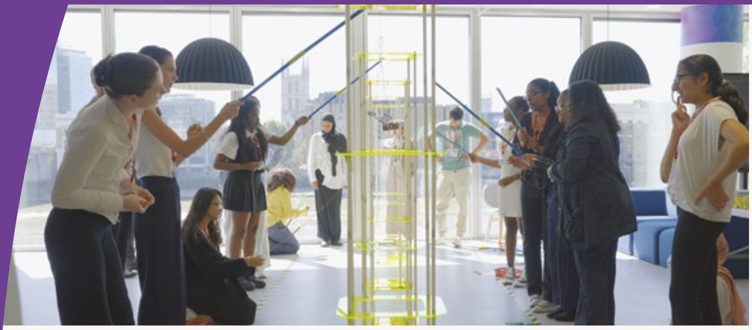
Progressing towards our ambition to build a more inclusive and equitable Britain, we developed our approach to include youth centre engagement, business simulations and outreach with special educational needs and disability ("SEND") students.

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

Fiifi Arthur, Data Scientist

Direct Line Group Community Fund

Insurance business simulations



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

Youth centre engagement

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

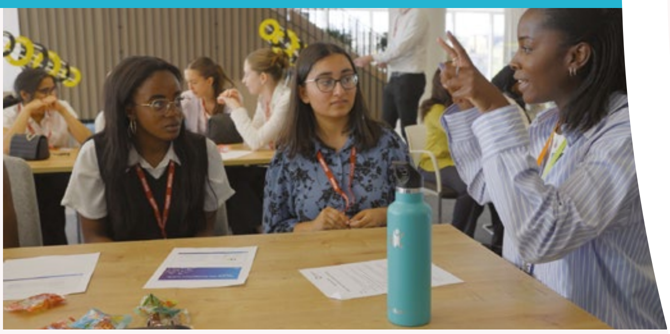
Working with SEND students

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

Work experience

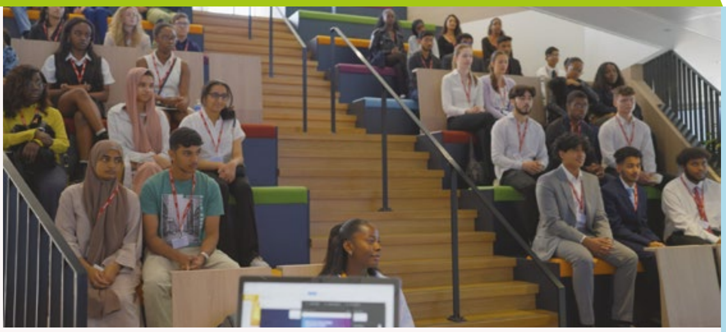
Providing in-person and virtual opportunities for students with a focus on employability and careers skills.

Mentoring



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

Insight events



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

From 2022-2023

600+
colleague volunteers

2,200+
total volunteering hours

75%
of colleagues feel that we do a good job of supporting communities

9,700
young people's employability positively impacted

84%
were eligible for free school meals

83%
were from an ethnic minority background

EMPLOYER INDEX 2023

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

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

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

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

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

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

Charity support

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

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

Volunteering

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

Our 2023 tax contribution

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

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

HM Treasury

£936.8m[1]

Net tax contribution

Society

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

Note:

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

Planet

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

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

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

Our vision

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

Our climate ambition

To become a Net Zero business across all scopes by 2050

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

Our 5 near-term Science-Based Targets[1] to support our ambition

Operational emissions (Scope 1 and 2)

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

Investment portfolio (Scope 3): Corporate bonds

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

Investment portfolio (Scope 3): Corporate bonds

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

Investment portfolio (Scope 3): Commercial property

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

Investment portfolio (Scope 3): Real estate loans

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

Our commitments to deliver against our ambition and targets

Plan and implement

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

Engage and influence

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

Govern and manage

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

Strategic management actions

Electric vehicles	**Supply chain**	**Flood resilience**	**Underwriting footprint**

Note:

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

Science-Based Targets

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

2023 performance | **Progress against targets**

Operational emissions (Scope 1 and 2)

Covering

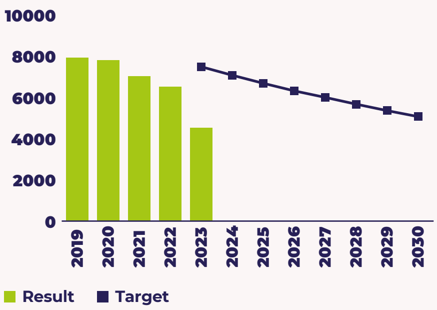
Operational footprint

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

Targets

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

Operational emissions (Scope 1 and 2)



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

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

Investments (Scope 3)

Covering

Corporate bonds

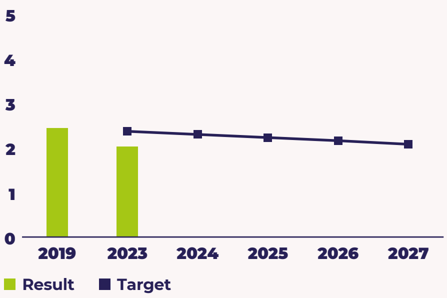
The largest asset class in our investment portfolio and typically short-duration holdings.

Targets

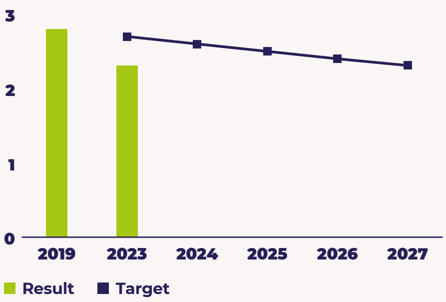
2. Align our Scope 1 and 2 corporate bonds portfolio temperature rating to 2.08°C by 2027 from 2.44°C in 2019.

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

Corporate bonds
Scope 1 and 2 temperature rating



Corporate bonds
Scope 1, 2 and 3 temperature rating



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

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

Commercial property 4. Reduce commercial property emissions by 58% per square metre by 2030 compared to the 2019 baseline.	Investment portfolio consisting of prime UK commercial properties.	2023 performance will be reported with a one-year lag in the 2024 Annual Report and Accounts.
Real estate loans 5. Reduce real estate loans emissions by 58% per square metre by 2030 compared to the 2019 baseline.	Investment portfolio consisting of short-dated loans backed by UK commercial properties.	2023 performance will be reported with a one-year lag in the 2024 Annual Report and Accounts.

Our investments

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

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

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

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

We also require the below exclusions and preferences:

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

Energy efficiency measures[1]

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

- expanded the use of hydrogenated vegetable oil ("**HVO**") in our repair centres as an alternative fuel for our recovery trucks. This initiative has now been implemented at 95% of our auto services sites, resulting in an estimated saving of 2,025 tCO_2e in 2023;
- removed gas from all paint spray booths in one of our auto services sites, providing an estimated saving of 277 tCO_2e per year;
- completed the installation of LED lights across all 23 auto services sites; and
- been awarded a silver SKA rating for the fit out of our new Riverbank House office. An SKA rating is a recognised means of assessing the refurbishment of existing buildings to ensure the retrofit is carried out in an environmentally considerate way.

Supply chain sustainability programme

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

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

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

Note:

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

> "It's been great switching our paint booths from gas to electric, helping to reduce our footprint."
>
> **Elliott Henry-Hughes | Technical Engineering Graduate 2022**

Group emissions

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

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

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

Definitions

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

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

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

Group greenhouse gas emissions reporting

Scope 1	**2023**		2022		2021		2019 (Baseline)	
Office sites	**671**		1,023		1,220		1,418	
DLG Auto Services[1]	**3,829**		5,506		5,812		6,506	
Total (tCO_2e)[1]	**4,500**		6,529		7,032		7,924	
Scope 2								
	Location-based	**Market-based[2]**	Location-based	Market-based[2]	Location-based	Market-based[2]	Location-based	Market-based[2]
Office sites	**642**	**33**	1,089	0	1,372	0	4,516	0
DLG Auto Services	**1,824**	**0**	1,364	0	1,783	0	2,093	0
Total (tCO_2e)	**2,499**		2,453		3,155		6,609	
Total Scope 1 and 2 (tCO_2e)[1]	**6,999**		8,982		10,187		14,533	
Of which: Office sites (tCO_2e)	**1,346**		2,112		2,592		5,934	
Of which: DLG Auto Services (tCO_2e)[1]	**5,653**		6,870		7,595		8,599	
Scope 3								
Purchased goods and services[3]	**242,364**		244,316		268,696		294,080	
Fuel and energy-related activities (not included in Scope 1 and 2)	**1,354**		1,518		2,586		2,459	
Upstream transportation and distribution	**1,641**		1,890		655		4,173	
Waste generated in operations	**1,762**		2,523		1,990		3,358	
Business travel	**1,287**		475		91		1,807	
Employee commuting[4]	**7,100**		7,227		5,962		3,176	
Of which: homeworking emissions[5]	**5,256**		5,583		5,501		–	
Upstream leased assets[6]	**131**		189		110		514	
Downstream leased assets[1,7]	**2,878**		1,552		964		1,658	
Total Scope 1, 2 and 3 excluding investments (tCO_2e)	**265,516**		268,672		291,241		325,758	

Investments[8,9,10]	2023	2022	2021	2019 (Baseline)
Corporate bonds and private placements Scope (1 and 2)	**2.02°C**			2.44°C
Corporate bonds and private placements Scope (1, 2 and 3)	**2.31°C**			2.80°C
Real estate investments (tCO_2e)	**–**	4,630		5,197
Real estate investments – intensity (kCO_2e/m^2)	**–**	54		67
Real Estate Loans (tCO_2e)	**–**	10,011		13,769
Real Estate Loans – intensity (kCO_2e/m^2)	**–**	72		81

Intensity metrics	2023	2022	2021	2019 (Baseline)
Scope 1 and 2 emissions (tCO_2e) per £ million of net insurance revenue[11]	**2.2**	2.9		
Scope 1 and 2 emissions (tCO_2e) per average number of employees for the year	**0.7**	0.9	1.0	1.3

Notes:

1. The 2019 reported Scope 1 emissions baseline differs from our previously reported baseline following a review of courtesy car fuel, by Accenture. As a result, 1,658 tCO_2e has been reclassed from Scope 1 emissions to downstream leased assets (Scope 3, Category 13), which represents the emissions from any additional fuel used by customers in courtesy cars. An additional 183 tCO_2e has been included within Scope 1 emissions to account for the initial on-site refuelling of courtesy cars.
2. Figures for Scope 2 use standard location-based methodology. We follow the GHG Protocol to disclose both location and market-based figures; and as we have secured our energy from 100% renewable sources since 2014, our Scope 2 market-based results are nil prior to 2023. From 2023, emissions from electric and plug-in hybrid vehicles in the company car fleet have been reported within Scope 2 market-based for the first time. Prior period data for these emissions is not available.
3. In accordance with the GHG Protocol under which we report, the following are excluded from the total: operational control activities already detailed under Scope 3 emissions; cash payments to customers or other insurance companies/legal firms as compensation; intragroup transfers between our operating companies for financial accounting purposes as the actual purchase of goods and services to our third-party suppliers is already captured; and reinsurance costs to third-party reinsurers as this is a financing transaction.
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 the GHG Protocol.
6. Upstream leased assets refer to (1) leased office space locations where Direct Line Group does not directly control the energy provision (2) auto services pods in retail car park locations.
7. Downstream leased assets includes DLG Auto Services courtesy cars emissions as referenced in footnote 1.
8. The investment portfolio emissions are being reported for the first time where available. The corporate bonds emissions and corresponding temperature ratings relate to 2023 performance. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, emissions for commercial property and real estate loans will be reported with a one-year time lag. This approach was agreed with the SBTi when these targets were approved in 2022.
9. Investment emissions for the corporate bonds portfolio are expressed as temperature scores (°C). The temperature scores have been generated using the Carbon Disclosure Project temperature rating tool.
10. Investment emissions for the commercial property and real estate loans portfolio are emissions-based expressed as emissions intensity per m^2 of floor area (kCO_2e/m^2). The underlying emissions are calculated in accordance with Partnership for Carbon Accounting Financials for accounting and reporting emissions generated from investment activities.
11. Following adoption of IFRS 17, the Group restated its 2022 results. As such, we now calculate this intensity metric using net insurance revenue (previously calculated using net earned premium) and the 2022 metric has been re-presented accordingly. Analysis for periods prior to 2022 is not available. For historic reporting, see previous publications, including page 70 of the 2022 Annual Report and Accounts.

Reporting methodology

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

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

Scope 3 emissions

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

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

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

Our Net Zero ambition

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

Energy consumption (kWh)[1,2]

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

Our approach to offsetting

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

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

Biodiversity

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

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

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

Notes:

1. 100% of GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.
2. Data is reported in compliance with the Streamlined Energy and Carbon Reporting ("**SECR**") requirements (see page 85).

Governance

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

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

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

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

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

Business ethics

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

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

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

Anti-bribery, anti-corruption and financial crime prevention

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

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

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

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

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

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

Responsible procurement

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

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

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

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

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

Human rights and modern slavery

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

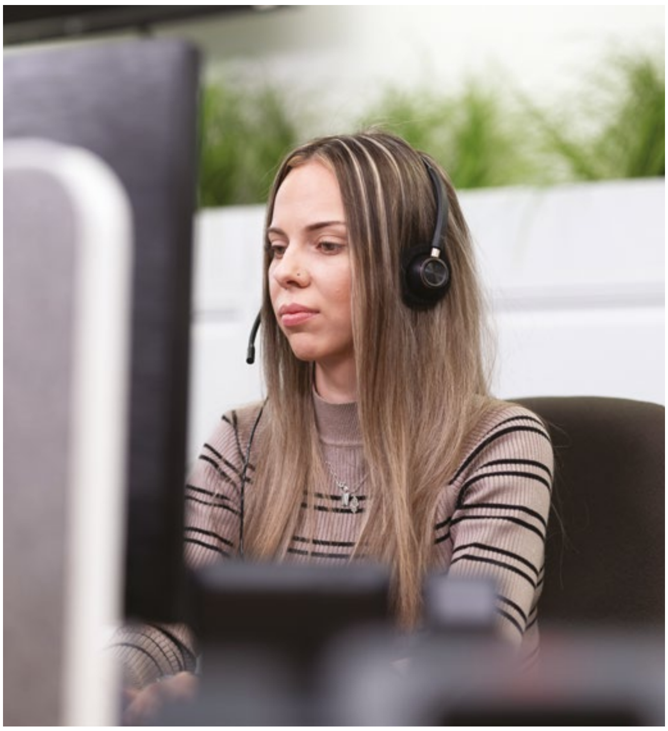
a. The core International Labour Organisation ("**ILO**") standards which ban the use of child labour and forced compulsory or bonded labour.
b. The non-core ILO standards which include statements that workers should have safe and hygienic working conditions, a living wage should be paid, working hours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

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

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

Prompt Payment Code

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



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

Darren Braham,
Results Production Analyst

Data ethics

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

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

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

Data privacy and security

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

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

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

External ratings, memberships and benchmarks

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

MSCI

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

Sustainalytics

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

Ecovadis

We were awarded a silver medal in 2023

Carbon Disclosure Project

We were awarded a C score in 2023

Science Based Targets initiative

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

Race to Zero

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

Get Nature Positive

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

Inclusive top 50 employers

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

Social Mobility Pledge

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

Women in Finance

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

Race at Work Charter

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

The Faith & Belief Forum

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

Notes:

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

Task Force on Climate-related Financial Disclosures

Introduction

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

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

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

Metrics and Targets disclosure recommendation (a):

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

Metrics and Targets disclosure recommendation (b):

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

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

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

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

Governance

Our approach

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

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

Boards and Committees

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

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

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

Committees

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

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

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

Management's role

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

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

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

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

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

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

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

The Steering Group's responsibilities further include:

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

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

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

Group Audit

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

Strategy

The effects associated with climate change are far reaching and have the potential to cause significant economic and societal impact. We know that through the actions we take as a business we can contribute to a more sustainable future and as an insurer with over 9.4 million in-force policies[1], we recognise our role in supporting – and accelerating – the transition to a low-carbon economy.

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

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

Note:

1. Ongoing operations – see glossary on page 263.

Climate change risks and opportunities

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

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

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

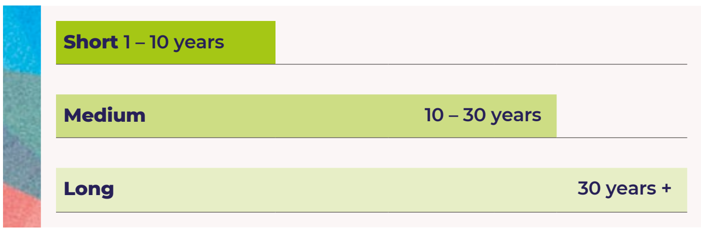
Materiality

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

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

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

Defining the short, medium and long-term time horizons



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

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

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

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

Financial planning, performance and position

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

To help quantify the potential impact of climate change we:

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

Financial planning

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

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

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

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

Financial performance and position

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

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

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

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

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

Scenario analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of results – 2021 analysis

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

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

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

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

Relative Impact – No Additional Action to Early Action

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

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

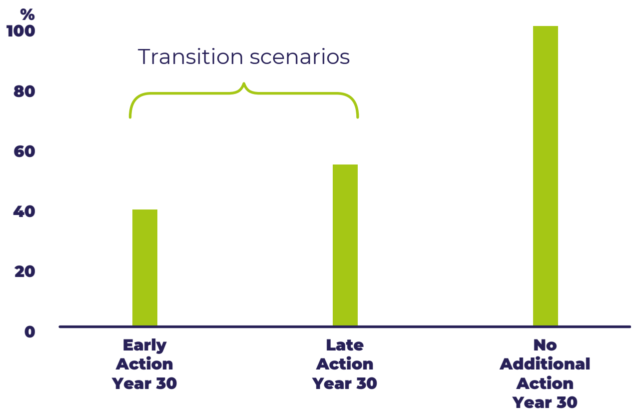


Figure 1: Year 30 impacts of scenarios relative to the largest No Additional Action scenario

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

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

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

Comparison of impact – insurance liabilities and investments

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

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

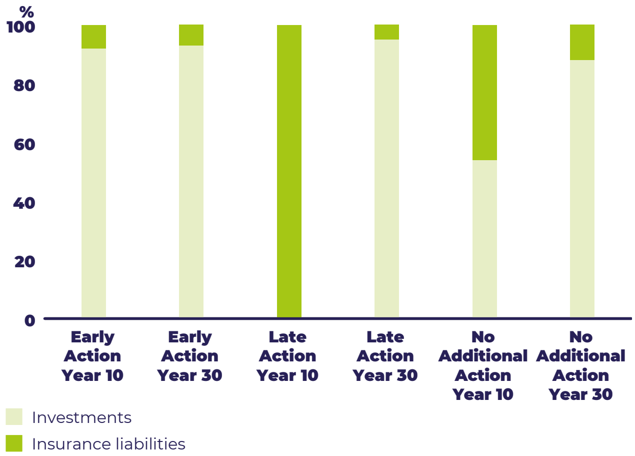


Figure 2: Share of impact – insurance liabilities and investments

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

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

Management actions

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

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

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

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

CBES second round

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

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

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

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

2023 physical risk modelling

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

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

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

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

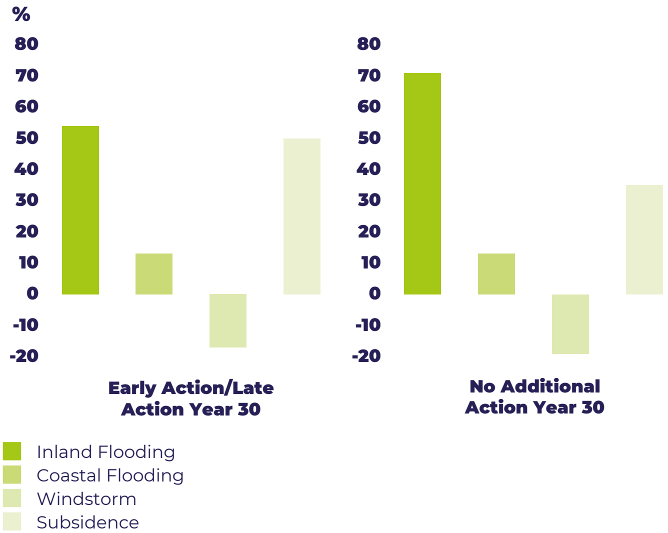


Figure 3: Split of physical risk impacts on insurance liabilities by peril

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

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

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

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

Reverse stress test – electric vehicle adoption

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

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

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

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

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

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

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

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

Future developments

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

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

Our strategic response

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

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

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

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

Key

S Short-term (1 – 10 years) M Medium-term (10 – 30 years) L Long-term (30 years +)

U Underwriting I Investments O Operations

Underwriting

Property

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

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

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

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

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

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

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

Motor

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

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

Actions we have taken include:

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

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

Operations

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

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

Science-Based Targets

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

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

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

Operational emissions

The steps we have taken in recent years mean we understand where the most carbon-intensive areas of our operations are, allowing us to prioritise carbon reduction activity across these areas in support of our targets. Our 23 accident repair centres remain a key area of focus and we continue to embed a range of solutions as part our carbon reduction strategy, with this work being led by colleagues in the Auto Services Sustainability Programme. In the year, we have:

– expanded the use of hydrogenated vegetable oil in our accident repair centres as an alternative fuel for our recovery trucks. This initiative has now been implemented at 95% of our repair centres, resulting in an estimated 2,025 tCO_2e saved in 2023;
– delivered the removal of gas from all of the paint spray booths at one of our sites, providing an estimated saving of 277 tCO_2e in the year. We continue to use this experience to explore expanding the move from gas powered paint booths to electric in more of our repair centres; and
– completed the installation of LED lighting at all 23 accident repair centres.

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

Emissions reporting

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

Carbon offsetting

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

Supply chain

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

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

Investments

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

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

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

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

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

Science-Based Targets

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

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

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

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

– Thermal coal screen whereby we restrict investment in firms generating more than 5% of revenues from either thermal coal mining or thermal coal power production unless the company is taking positive climate 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.

Note:

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

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

Scenario analysis

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

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

This capability will continue to be embedded throughout 2024.

Using our influence

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

Risk Management

Enterprise Risk Management Strategy and Framework

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

Risk taxonomy

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

Risk impact

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

Climate-related risk identification process

Annual risk identification process

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

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

Regulatory monitoring

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

During 2023, this included reviewing:

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

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

Emerging risk process

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

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

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

Climate risk modelling

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

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

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

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

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

Metrics and Targets

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

Area	Metric	Description	Category	Page
Underwriting	Total weather-related loss impact	Track actual performance against our an annual expectations for major weather-related claims and monitor the impact of claims associated with severe weather on the Group's net insurance margin.	Physical risk	82
	Flooding	Monitor our market share for risks to be deemed in the high- or very high-risk segments and track the volume and proportion of policies we are ceding to Flood Re.	Physical risk	83
	Subsidence	Monitor our subsidence market share by geo risk classification.	Physical risk	83
	Electric vehicles	Monitor the number and proportion of electric vehicle policies we underwrite and track the number of new electric vehicles registered in the UK.	Transition risk and opportunities	83
Operations	Operational emissions	Calculate and report our operational emissions (Scope 1 and 2), to monitor progress towards our science-based operational emissions target.	Physical risk and transition risk	62, 64, 83, 84
	Measuring progress within our repair centres	Quarterly oversight of: – GHG emissions and gas consumption metrics associated with vehicle repair; – the delivery of carbon reduction plans; and – opportunities for innovating and using new solutions within repair centres, in support of plans and targets.	Transition risks and opportunities	84
Investments	Investment portfolio emissions	Measure and report the temperature score of our corporate bond portfolio, and GHG emissions from commercial property and real estate loans, to track progress against our science-based investment targets to ensure we are delivering against our aims.	Physical risk and transition risk	62, 64, 84, 85

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

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

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

Underwriting

Weather-related loss impact

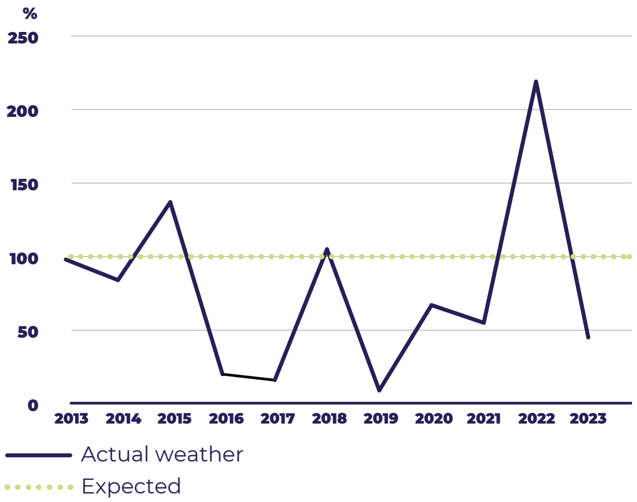
The predominant direct physical drivers of catastrophe weather risk from a capital perspective are major UK floods and windstorms. The last peak of windstorm activity was in the late 1980s and early 1990s; the last decade being particularly benign in comparison. By contrast, flood has seen more elevated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

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

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

Severe weather claims[1] (actual % of expected loss)

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

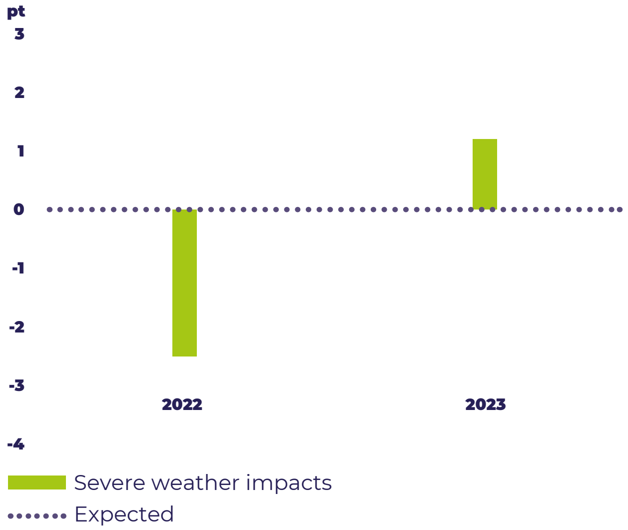


The previous graph shows the impact of severe weather claims relative to this annual expectation. In 2023, claims associated with severe weather were below our 2023 severe weather assumption, which is set at 100% in the graph.

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

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

Impact of severe weather on net insurance margin[1, 2] (pt)



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

Home

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

Notes:

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

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

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

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

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

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

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

Progress against the supplemental guidance for insurance companies

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

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

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

During the year, the Group has embedded plans to further assess its disclosures relating to underwriting emissions, through the development of a climate-related risk management roadmap (see page 71). In 2024, the actions that are currently planned include reviewing issued guidance related to measuring and reporting underwriting emissions, in order to further inform the Group's approach.

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

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

Whilst we will continue to review emerging best practice, at present, we do not believe available methodologies have sufficient maturity to meaningfully measure the weighted average carbon intensity or GHG emissions associated with small business commercial property lines. For example, current frameworks recommend collecting emissions data from companies' own disclosures or official filings, or use of physical or economic activity data, to determine emissions associated with commercial lines portfolios. Such recommendations are not currently pragmatic for insurers with commercial small business customers, such as the Group.

The Group does not underwrite any specialty lines of business.

Operational
We calculate and report our operational GHG emissions annually. Our most recent reporting can be found on page 64 where we continue to break out our Scope 1 and Scope 2 emissions into separate performance figures across our office sites and accident repair centres. We also disclose our Scope 3 footprint, which includes emissions from our supply chain.

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

Scope	Target	2023 update
Operational	We target reducing absolute Scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.	As at the end of 2023, absolute Scope 1 and 2 GHG emissions reduced by 43%[1], from a 2019 base year.

Our 2023 reporting shows a 43%[1] reduction in Scope 1 and 2 emissions, when compared to the 2019 baseline. This reflects the actions we have taken in recent years, which has included reducing our office footprint, investing in our estate to integrate new energy-efficient features and equipment and the carbon reduction initiatives we are implementing across our network of accident repair centres.

More information on our Science-Based Targets, including the actions we have taken in the year against them and our future priorities, can be found on pages 61 and 62.

Note:

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

Operational emissions performance

With hybrid working well embedded across the business, large numbers of our people continue to work from home regularly. In recognition of this we have again calculated and reported homeworking emissions under the Scope 3 'Employee Commuting' category (see page 64).

Overall, when compared to 2022, our Scope 1 and 2 GHG emissions decreased to 6,999 tCO_2e. In the year, our office footprint reduced following the move of our head office from Bromley to a newer and smaller Central London property, contributing to lower Scope 1 and 2 emissions from our office estate.

Within our repair centres, we continued to see a reduction in Scope 1 emissions through the use of hydrogenated vegetable oil as an alternative fuel for our recovery trucks, with this initiative now implemented at 95% of our Auto Services sites (see page 79). These reductions were partly offset by an increase in Scope 2 emissions from our repair centres as we continue to switch to electric from gas to power spray paint booths, where possible.

Auto Services Sustainability Programme

Our Auto Services Sustainability Governance Forum, held quarterly, is responsible for the oversight, accountability and coordination of all activity that forms part of the Auto Services Sustainability Programme. The Forum oversees progress against the activities to deliver towards the carbon reduction strategy within our accident repair centres and tracks key Programme milestones.

This includes monitoring the delivery and performance against GHG emissions reduction targets, where metrics, such as gas consumption and emissions associated with vehicle repair, are tracked. The Forum also assesses the risks that could impact the delivery or prioritisation of planned activity, coordinating the actions required to mitigate against these. It also considers metrics relating to opportunities from innovating and using new solutions in support of plans and targets, such as assessing the feasibility and benefits of adopting new lower emission technologies or equipment in repair centre sites.

Supply chain

While we wait for the publication of the Science-Based Net Zero Targets for Financial Institutions from the SBTi, which is expected in 2024, we have chosen to set an internal emissions reduction target for our supply chain. This target forms part of our Supply Chain Sustainability Programme, where we continue to encourage our largest emitting direct suppliers to sign up to SBTi targets or an equivalent (see page 63).

Investments

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambitions of the Race to Zero campaign. The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

Science-Based Targets

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

As at the end of 2023 our investment portfolio targets covered 65% of AUM.

Asset Class	Target	2023 update
Corporate Bonds	Align the Scope 1 and 2 portfolio temperature score by invested value from 2.44°C in 2019 to 2.08°C by 2027.	As at the end of 2023, the Scope 1 and 2 portfolio temperature score by invested value was 2.02°C.
	Align the Scope 1, 2 and 3 portfolio temperature score by invested value from 2.80°C in 2019 to 2.31°C by 2027.	As at the end of 2023, the Scope 1, 2 and 3 portfolio temperature score by invested value was 2.31°C.
Commercial Property	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	Agreed first reporting in 2024[1].
Real Estate Loans	Reduce GHG emissions by 58% per square metre by 2030 from a 2019 base year.	Agreed first reporting in 2024[1].

Further details on the emissions from our investments are reported on page 64.

Note:

1. Due to the practicalities of obtaining data from our external asset managers ahead of the release of the Group's annual reporting, progress against our commercial property and real estate loan targets is reported with a one-year time lag. This approach was agreed with the SBTi when these targets were approved in 2022.

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

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

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

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

More information on our Science-Based Targets, including the actions we have taken in the year against them and our future priorities, can be found on pages 61 and 62.

Streamlined Energy and Carbon Reporting (SECR) regulations

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

Requirement	Pages
Annual global GHG emissions (CO_2e):	
– from activities for which the Company is responsible	64
– from buying electricity, heat, steam or cooling by the Group for its own use	64
Annual global energy consumption in kWh, being the aggregate of:	
– energy consumed from activities for which the Company is responsible	65
– energy consumed resulting from buying electricity, heat, steam or cooling by the Group for its own use	65
The proportion of GHG emissions and energy consumed relating to the UK and offshore area[1,2]	63, 65
Methodology used to calculate emissions and energy consumption	65
At least one intensity metric in relation to emissions	64
Description of energy efficiency actions taken	63

Notes:

1. The offshore area is broadly defined as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41 (3) of the Marine and Coastal Access Act 2009.
2. 100% of the Group's GHG emissions and energy consumption reported relates to operations, all of which are based in the UK.

Risk management

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

Managing risk in line with our strategy

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

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

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

Our risk governance framework

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

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

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

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

See page 110 for governance structure.

Risk appetite

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

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

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

Overarching risk objective

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

Three strategic risk objectives

1. Maintain capital adequacy

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

2. Stable/efficient access to funding and liquidity

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

3. Maintain stakeholder confidence

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

Our Risk Management Framework

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

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

Within this, the risk management process is a key element in the development and on-going maintenance of an accurate risk profile. The objective of the risk management process is to identify, assess, manage, monitor and report on the risks that the Group is exposed to. See pages 80 and 81 for specific information on how the business identifies and assesses the risks associated with climate change.

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

Our risk culture

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

The Risk Function continues to work collaboratively across the Group to engender a positive risk culture, in particular developing a consistent approach to assessing and reporting on risk culture maturity, to ensure risk is fully integrated within the Group's wider cultural ambitions and aligned on values and behaviours that we expect our people to demonstrate.

Principal risks and uncertainties

We carefully assess the principal risks facing us. Principal risks are defined as having a residual risk impact of £30 million or more, taking into account customer, financial and reputational impacts. During 2023 the Group revised its financial materiality threshold down from £40 million to £30 million. This was driven by wanting to bring the materiality closer to that of the audit materiality, along with a desire to consider a wider range of quantitative (such as Solvency) and qualitative factors to ensure the level of materiality does not fluctuate significantly year on year.

Our principal risks are under continuous review and assessment and, with the introductions of the FCA's PPR regulations and Consumer Duty, Conduct Risk is now deemed a principal risk to the Group.

Principal risk	Description	Risk commentary
Insurance Risk Relative size of risk Trend – stable	The risk arising from insurance obligations, in relation to the perils covered and the processes used in the conduct of business. It takes account of the uncertainty related to the Group's existing insurance and reinsurance obligations as well as to new business expected to be written. It includes the risk of loss, or of adverse change in the value of insurance liabilities resulting from: – fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements; and – significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (for example catastrophe risk).	Key drivers of the outlook for insurance risk across our business plan include reserve, underwriting, distribution, pricing and reinsurance risks. Issues relating to claims inflation, the cost of living crisis, the impact of the FCA's PPR regulations, and the global political situation compounding supply/demand issues which arose following Covid-19 and Brexit have been key areas of focus for the Group in 2023. Claims trends have been significantly impacted by persistent claims inflation, particularly in the motor market, leading to uncertainty in claims reserving and pricing in 2023 and beyond. However, our reserving processes reflect improved insight in claims experience and inflation trends resulting from extensive work undertaken across the business over the past year. In addition, the Group has begun its pricing and underwriting transformation journey aimed at delivering best market practice in our Motor business. Key risk themes relating to this category include the macroeconomic environment, motor profitability, organisational resilience and agility, and sales risk post implementation of the FCA PPR regulations. We have used scenario testing to understand the potential financial impacts of these risks and continue to monitor them closely. Finally, climate change presents a risk of more frequent extreme events and we are looking to enhance key risk indicators to monitor related risks across Home and Commercial. The Group manages its current exposure to weather events through the use of reinsurance and our participation in the Flood Re initiative.
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 impact from the macroeconomic environment. Market risk remains at a heightened but stable level over the term of the Group's Financial Plan (the "Plan"). In the United Kingdom inflation has been coming down from the high levels in 2022 and interest rates have reached their peak in Q4 2023. The sustained high interest rates, continued economic uncertainty and low productivity levels are likely to lead to minimal economic growth. Recession in the United Kingdom would be likely to add to market volatility. Concerns about recession risk, escalation of geopolitical tensions and fiscal policy concerns could affect equity and credit markets within the global economy leading to credit spread increases, foreign exchange rate volatility, and interest rate changes. 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, interest rate swaps to hedge interest rate risks and de-risking the investment portfolio during volatile periods.

Principal risk	Description	Risk commentary	
Operational Risk Relative size of risk Trend – stable	The risk of loss due to inadequate or failed internal processes or systems, human error or from external events.	Key risks relating to this category include Technology and Infrastructure, Change, Cyber, Supply Chain & Outsourcing and People & Culture. The trend in operational risk is driven by ongoing risk exposure as the Group continues to implement and embed changes in its technology systems, data flows, pricing models, and processes, whilst operating within a volatile external environment. Our approach is to manage our operational risks proactively, to mitigate potential customer harm, regulatory or legal censure, and financial or reputational impacts. The Group is also undertaking various initiatives to reduce its operational risk through the strengthening of the control environment. The Group's exposure to technology risk is materially impacted by the need to enhance digital capabilities, simplify our technology estate and mitigate IT resilience risk. The Group is well placed to respond to new regulations and develops technology with a resilience by design approach. Continuous monitoring and maintenance of the currency and technology estate, along with disaster recovery testing, mitigates the likelihood of system failures. The Group maintains and tests critical end-to-end business and continuity plans in the event of a material system outage.	We have continued in the journey to improve change portfolio management and change initiative delivery, with the object of ensuring that change delivery is delivered to achieve the intended outcomes and benefits for customers and shareholders within risk appetite. Notably, we continue plans to modernise our IT infrastructure and technology estate for increased performance and stability, so that our customers can have a better sales and servicing experience through the improved target operating models (people, processes, technology, and data flows). The risks arising from cyber security failures that impact the confidentiality, integrity and availability of our data continue to increase and evolve as threat actors enhance their practices. Our Chief Information Security Officer is responsible for ensuring robust cyber security policies and controls are in place and operate effectively to protect customer and Group data. Headwinds relating to the macroeconomic and operating environment have led to increased risk exposure in respect of third parties and outsourcing arrangements. Initiatives have been established to enhance the Group's third party supplier risk and control environment in response to the increased risk exposure and to ensure risk is managed within Group appetite. Finally, the Group continues to focus on improving organisational culture. Culture remains a core focus and forms part of the Group's 2024 plans of activity and work is progressing to implement required frameworks, capabilities, tools, and governance to deliver against desired cultural outcomes.
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.	The FCA placed two regulatory requirements on Direct Line Group in 2023. In June 2023, the Group was required to carry out a past business review of Motor total loss claims settled between 1 September 2017 and 17 August 2022 to identify policyholders who received unfair settlements and provide them with appropriate redress. In September 2023, the Group was required to carry out a past business review of renewal prices charged since 1 January 2022 to identify any that did not comply with the rules relating to use of tenure and provide policyholders with appropriate redress. The Group is running remediation programmes for affected customers.	The introduction of Consumer Duty represents a significant shift in the FCA's expectations of firms and applies to all of the Group's regulated products. 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 the launch of Direct Line 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 embed multiple regulatory changes, alongside a challenging external environment referred to 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 ongoing dialogue with our regulators, and we have continued to engage with the regulators and HM Treasury regarding the future regulatory framework within the UK. We remain focused on key areas of regulatory attention, including embedding the FCA's PPR regulations and Consumer Duty, and regulatory requirements under the Green Finance Strategy, climate-related risks and the regulatory capital frameworks, and finance for positive sustainable change. We have also continued our focus upon operational resilience in accordance with the increased regulatory requirements. Finally, we have a governance and accountability framework in place as part of the Senior Managers and Certification Regime, and carry out an annual declaration process to ensure the ongoing fitness and propriety of the Group's Senior Managers and Certified Functions.
Credit Risk Relative size of risk Trend – stable	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 stable. The Group monitors its key counterparties, namely the security of the issuers within its investment portfolio, and its reinsurance exposures are mainly held with reinsurers with high credit ratings. To manage credit risk, we set credit limits for each material counterparty and actively monitor credit exposures, whilst also considering new future exposures.	In addition, we only enter material reinsurance contracts with reinsurers with at least an A- rating and, for liabilities with a relatively long period of time to settlement, the majority of reinsurance is arranged with reinsurers with a rating of A+ or above and a maximum of 10% of reinsurers rated between A- and A+. Finally, we also have well defined criteria to determine which customers and brokers are offered and granted credit.
Strategic Risk Relative size of risk Trend – stable	The risk of direct or indirect adverse effects resulting from strategies not being optimally chosen, implemented or adapted to changing conditions.	Strategic risk is influenced by internal and external developments, including the potential impacts of: cost of living; persistently high inflation; an increased level of regulatory concern and focus including Consumer Duty, the potential for new and ongoing geopolitical conflicts and climate-related financial risks impacting the Group's strategic position. These factors are driving a high level of uncertainty in the market and subsequent impact on consumer behaviour and engagement models and will continue to challenge the delivery of the Group's Plan, although the Group has put itself in a stronger capital position following the sale of the brokered commercial business.	The Group is in a place of transitional leadership, with an outgoing Acting CEO having only recently handed over to the new permanent CEO who joined at the beginning of March 2024. This has impacted the Group's ability to reformulate the longer strategy, which is being offset through preparatory work, progression of no-regret actions, and continuation of our existing strategy.

Effects of macroeconomic and trading environments on the Group

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

Emerging risks

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

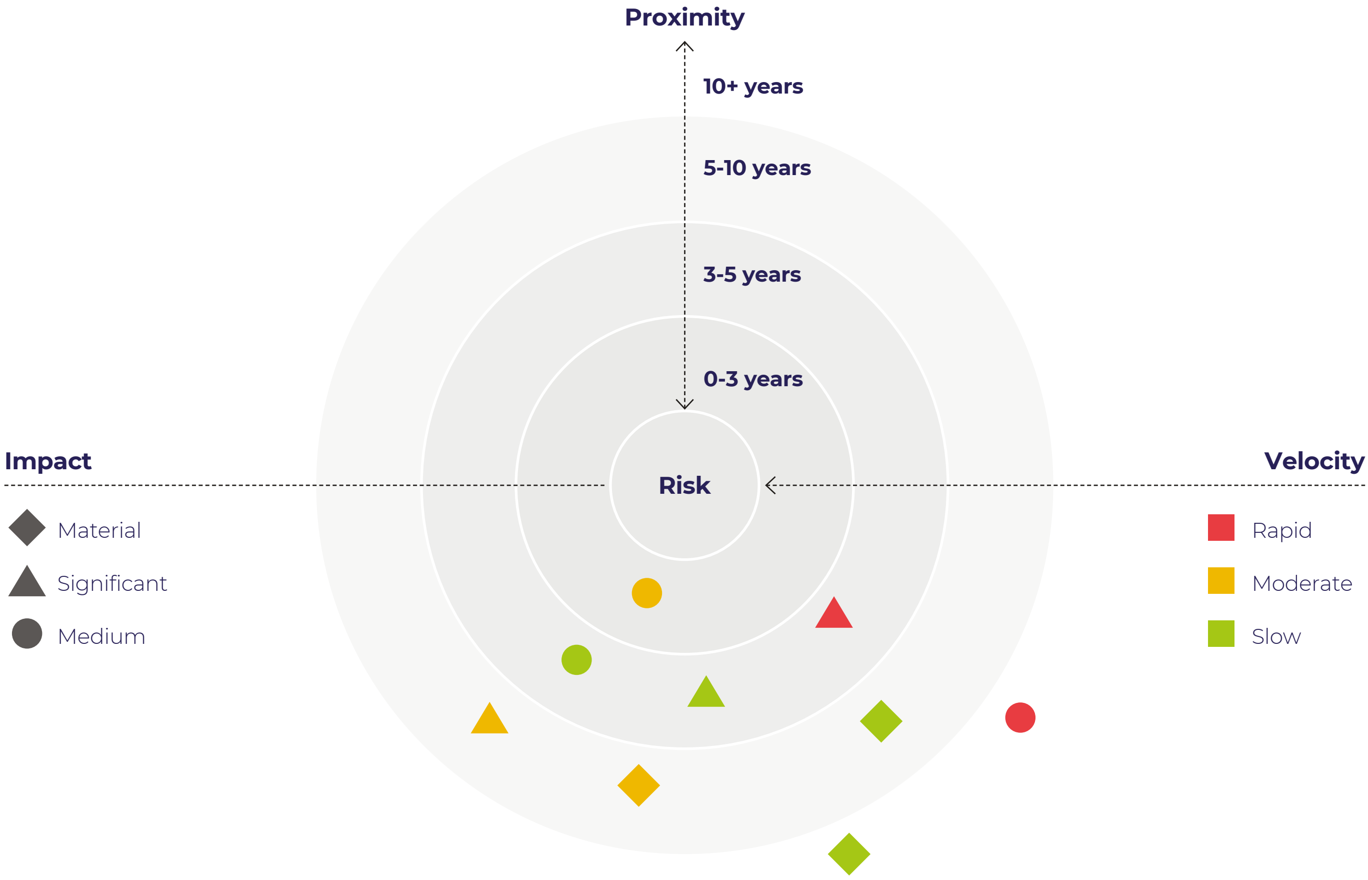
The Group has in place an emerging risks process designed to enable it to:

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

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

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

Emerging Risk Radar



The Group's Emerging Risk Radar classifies each risk by its theme, proximity (time), velocity (speed of development) and likely impact (on strategic objectives). This allows for active monitoring and prioritisation of management actions. The radar is used for illustrative purposes only.

Transition to a low carbon economy, including climate change

The Group recognises that transition to a low-carbon economy, including climate change, potentially poses material long-term financial risks to the business and is receiving increased scrutiny from investors and regulators. Climate change risk can be divided into physical and transition risks. Both of these categories can manifest themselves through a range of existing financial and non-financial risks, including insurance, market, operational, strategic and reputational risks. The Group is also aware of the liability risks due to climate change when parties who have suffered loss or damage from physical or transition risk factors seek to recover losses from those they hold responsible.

During 2023, the Group has continued to embed further controls, targets and reporting around climate change, overseen by its Climate Executive Steering Group. The Group's Risk Taxonomy has also been expanded to include additional reference to climate related risks.

We continue to monitor these risks closely and to develop our climate change modelling capability. Further details on our risk management approach to climate change are included on pages 80 to 81, within the Task Force on Climate-related Financial Disclosures ("**TCFD**") report.

Changing customer needs

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

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

Keeping up with digital advancements

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

To mitigate this, we are delivering multiple programmes to provide the Group with the capabilities to enable our offerings to compete with new entrants, for example: InsureTech.

Geopolitical tension

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

Automotive technology

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

Data ethics

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

The Group has embedded a Data Ethics Framework and Data Ethics principles which are now well established and have been tested via the Data Ethics committee.

Viability statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the minimum 12 months required by the going concern statement. The Strategic report, on pages 1 to 94, sets out the Group's financial performance, business environment, outlook and financial management strategies. It covers how the Group measures its regulatory and economic capital needs and deploys capital. You can find discussion about the Group's principal risks and risk management on pages 88 to 90. Note 3 to the consolidated financial statements starts on page 194 and sets out financial disclosures relating to the Group's principal risks. This covers insurance, market and credit risk, and the Group's approach to monitoring, managing and mitigating exposures to these risks.

Every year, the Board considers the strategic plan ("the **Plan**") for the Group. The Plan makes certain assumptions in respect of the competitive markets in which the Group operates. By its nature, a strategic plan comprises a series of underlying assumptions which can be uncertain in nature and rely on judgement. Each year, the Group's Risk Function assesses the Plan and provides a report to the Board which supports the Board in concluding on the Group's viability.

When reviewing the Plan, the Board considered the Group's prospects over the period that the Plan covered and the conclusions of the Risk Function's review, based on the Group's anticipated activities as set out in the Plan. The Board has assessed the principal risks of the Group over the duration of the planning cycle. All of the Group's principal risks, as outlined on pages 88 to 90, were reviewed as part of the Risk Function review of the Plan, and the outlook of those risks over the period covered by the Plan was taken into account (i.e. whether the outlook for each risk was increasing, broadly static or decreasing over the period of the Plan). In addition, the Risk Function's review defined a set of key risk themes, known as top risks, grouped around the themes of financial resilience, operational resilience and future strategic fit in the context of the Plan. The Plan did not introduce any new material risks other than those already contained within the Group's Material Risk Register. Whilst outcomes for the later years in the Plan are less certain, the Plan provides a robust planning tool for strategic decisions. The Board recognises that, in a strategic plan, uncertainty increases over time and, therefore, future outcomes cannot be guaranteed or accurately predicted. As the Plan is used for planning over a timeframe of four years, to 31 December 2027, this has been selected as the most suitable period for the Board to review the Group's viability.

The Group's Risk Function has carried out an assessment of the risks to the the Plan and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, failure to achieve motor pricing initiative benefits, delay to delivery of expense reductions and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- Adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% to 6% with the Group and market response delayed by six months.
- Failure to achieve motor pricing initiative benefits: planned benefits from future motor pricing initiatives are not achieved.
- Delay to delivering expense reductions: there is a delay of 12 months in delivering planned expense reductions.
- Fall in asset values: an increase in credit spreads of 75 basis points, with a partial recovery of 25 basis points over 2025.

It is unlikely that all risks would materialise at the same time. None of the scenarios individually were concluded to present a threat to the Group's expected viability across the duration of the Plan.

The CFO review describes the Group's capital management strategy, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet, and sets out management actions that the Group continues to pursue to improve capital strength. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2024 and 2025. Two specific macroeconomic combination stresses, a moderate and a severe, have been updated to include not only a review of Group financials but also a review of assumptions to reflect the latest internal and external environment and trends. The stresses have been run to assess the possible impact on own funds in the period to 31 December 2024 and 31 December 2025. The stresses are updated and repeated regularly. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible", updated for changes in the macroeconomic environment.

In the moderate and severe scenarios, it was concluded that the Company's solvency capital requirement would not be breached.

Additionally, the Risk Function conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of the Company's current business model. The findings showed that over the duration of the planning cycle, the scenarios considered did not present a risk to the viability of the business model.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the CFO review. This sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note in the consolidated financial statements sets out the impact on profit before tax of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Transition to low carbon economy including climate change

In 2023, while the stress and scenario tests that were initially performed in 2021 were not revisited, the Risk Function updated the physical risk section of the underwriting liabilities element of the original analysis to account for portfolio and modelling changes. As part of the updated exercise, we took steps to improve our model to enhance our view of risk. The updated analysis also took into account the sale of the Group's Brokered Commercial Insurance Business, to reflect a view of exposure that was representative of the ongoing Group. The tests are discussed in more detail on pages 75 and 76. In addition, in 2023, we conducted a reverse stress test to establish whether the long-term future for motor insurance, specifically, the adoption of electric vehicles, poses a threat to the viability of our current business model. This is discussed in more detail on page 76.

The overall conclusion of these tests was that there could be breaches in the Group's risk appetite in the long term, however a combination of contingent, pre-emptive and strategic management actions could be deployed to address the risks and allow the business to recover to above risk appetite. Furthermore, the Group's response to climate change underpins its sustainability strategy, and having set out its Science-Based Targets in 2022, the Group remains committed to reducing its carbon footprint.

Based on the results of these reviews, the Board has a reasonable expectation that the Company and the Group can continue in operation, meet liabilities as they fall due and provide the appropriate degree of protection to those who are, or may become, policyholders or claimants in the period to 31 December 2027.

Statement of the Directors in respect of the Strategic report

The Board reviewed and approved the Strategic report on pages 1 to 94 on 21 March 2024.

By order of the Board

Neil Manser
Chief Financial Officer

21 March 2024